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IN THE
Supreme Court of the United States
OCTOBER TERM, 1993

SAM'S WHOLESALE CLUB AND WAL-MART STORES, INC.,
Petitioners,

v.

UNITED STATES,
Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

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PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the absence of common stock ownership between a foreign and an American trademark holder requires Customs exclusion of an authentic foreign-manufactured product bearing the trademark, under 19 U.S.C. § 1526 as interpreted in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), even though the foreign and American trademark owners are members of a single "closely knit foreign structure" that controls the manufacture and international distribution of the product.

2. Whether this Court's decisions in *United States v. 92 Buena Vista Avenue*, 113 S.Ct. 1126 (1993), and *Austin v. United States*, 113 S.Ct. 2801 (1993), permit the forfeiture by an innocent owner under 19 U.S.C. § 1595a(c) of almost $700,000 worth of authentic "gray market" Rolex watches imported and purchased by petitioners at a time when the Customs Service had proposed to permit parallel importation of the watches.

3. Whether the protection of 19 U.S.C. § 1526 provided to American companies—to protect American interests—extends to a corporation wholly owned by a foreign citizen.

PARTIES TO THE PROCEEDINGS IN THE LOWER COURTS AND RELATED CORPORATIONS

The parties before the Court are the same as in the courts below.

Petitioner Sam's Wholesale Club is a division of petitioner Wal-Mart Stores, Inc.

None of the Rolex corporate entities was a party in the courts below.

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PETITION FOR WRIT OF CERTIORARI

Petitioners, Sam's Wholesale Club and Wal-Mart Stores, Inc., respectfully petition this Court for a writ of certiorari to review a decision of the United States Court of Appeals for the Fifth Circuit, affirming summary judgment in favor of the United States ordering petitioners to forfeit 83 genuine Rolex watches.

OPINIONS AND ORDERS BELOW

The May 21, 1993, opinion of the Fifth Circuit Court of Appeals affirming summary judgment in favor of the United States is reported *sub nom. United States v. Eighty-Three Rolex Watches* at 992 F.2d 508 and reproduced in Appendix A, p. 1a. The July 22, 1993, order of the Fifth Circuit denying petitioners' petition for rehearing and suggestion for rehearing *en banc* is unreported and reproduced in Appendix D, p. 27a.

The decision of the United States District Court for the Southern District of Texas (1992 WL 510001) has not been reported. The district court Opinion on Summary Judgment is reprinted in Appendix B, p. 20a, and its Final Judgment is reprinted in Appendix C, p. 26a.

JURISDICTIONAL STATEMENT

The United States Court of Appeals for the Fifth Circuit issued its decision on May 21, 1993. That court denied petitioners' timely filed petition for rehearing and suggestion for rehearing *en banc* on July 22, 1993, and this Petition is timely filed. This Court therefore has jurisdiction over this case pursuant to 28 U.S.C. § 1254(1).

The jurisdiction of the United States District Court for the Southern District of Texas was based on 28 U.S.C. §§ 1345 and 1355.

STATUTES AND REGULATIONS INVOLVED

This case presents issues of the application of the following statutes and rules:

1. Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, provides:

Merchandise bearing American trademark

Importation prohibited

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provision of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title

15, unless written consent of the owner of such trademark is produced at the time of making entry.

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

2. 19 C.F.R. § 133.21 provides:

Restrictions on importation of articles bearing recorded trademarks and trade names.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent or subsidiary companies or are otherwise subject to common ownership or control (see §[] 133.2 (d). . . .

3. 19 C.F.R. § 133.2(d) provides:

(1) "Common ownership" means individual or aggregate ownership of more than 50 percent of the business entity; and

(2) "Common control" means effective control in policy and operations and is not necessarily synonymous with common ownership.

STATEMENT OF THE CASE

A. The Rolex Companies and Their Trademarks.

This petition presents compelling unresolved issues involving importation into the United States of foreign-manufactured goods bearing genuine trademarks.[1] The foun-

[1] These imports are commonly called "gray-market" goods, a term used to describe foreign-manufactured merchandise bearing

dation for these issues was laid in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), in which the Court validated regulations permitting parallel importation of foreign-manufactured goods by certain entities affiliated with the American trademark holder. This case presents permutations of the *K Mart* facts involving several entities which own various trademarks for Rolex watches and which together manufacture, assemble, and distribute Rolex watches throughout the world. The relevant facts were stipulated by the parties and are reflected in their Amended Stipulation of Facts, reprinted as Appendix E, p. 29a. The relationship among the Rolex entities is central to the issues and may be described as follows.[2]

All Rolex watch movements (the internal timekeeping mechanisms) are manufactured by Manufacture des Montres Rolex, S.A., Bienne, Switzerland ("Rolex Bienne" or "Bienne"), the original Swiss holder of the ROLEX trademark. The exclusive worldwide distributor, Montres Rolex, S.A., Geneva, Switzerland ("Rolex Geneva" or "Geneva"), manufactures the watch casings and assembles the finished watches. The watches are then sold by Rolex Geneva for distribution around the world. Rolex Geneva holds various Swiss registrations for Rolex combination trademarks, including the "Rolex Crown" trademark. Significantly, Geneva's company name, "Montres Rolex, S.A., Geneva," is imprinted on the casing of every Rolex watch. Appendix F, p. 35a, illustrates this im-

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a valid United States trademark which is legally purchased abroad and imported into this country without consent of the American trademark holder. The Court recognized a legitimate gray market in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). Gray-market goods are also called "parallel imports," a term more accurately describing the imports without the nefarious connotation of "gray-market." *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 662 n.1 (3d Cir. 1989). The terms are used synonymously in this Petition.

[2] The Rolex corporate structure is illustrated by a chart, stipulated to by the parties, which is reprinted as a fold-out exhibit to Appendix E.

print. The "Rolex Crown" mark *is neither owned by a United States corporation nor registered by an American domiciliary.*

In addition to their necessary relationship in together producing and distributing Rolex watches, Rolex Geneva and Rolex Bienne each own 50 percent of Rolex Le Locle, S.A., whose Board of Directors is composed of two representatives from each. Rolex Geneva and Rolex Bienne both rent space in a building owned by Rolex Le Locle. Dr. Harry Borer, a director and officer of Rolex Bienne and one of its three shareholders, is a director of Rolex Le Locle and owns stock in Geneva. In its Swiss registration, Rolex Le Locle states that one of its purposes is to "handle directly the complete finishing including the supply of the watch case and the bracelet of quality watches of all types. . . . It may coordinate, to the service of the Rolex companies, the defense of common interest and pursue the aims which are derived from it."

Rolex Bienne assigned the ROLEX trademark to a New York corporation, Rolex Watch U.S.A., Inc. ("Rolex U.S.A."). Dr. Harry Borer oversaw assignment of the ROLEX mark to Rolex U.S.A. On March 15, 1983, Rolex U.S.A. registered ownership of the ROLEX trademark with the United States Customs Service. Rolex Geneva has also assigned Rolex trademarks it owns, including "Oyster Perpetual" and "Tite Fit," to Rolex U.S.A. It has not, however, transferred the "Rolex Crown" mark.

Rolex U.S.A. and Rolex Geneva are commonly owned by a Swiss foundation, the Wilsdorf Foundation, in the following manner. Rolex U.S.A. is owned in its entirety by Rolex Industries, Inc., a New York corporation, which, in turn, is owned in its entirety by Rolex Holding, S.A., of Geneva, Switzerland, which, in turn, is wholly owned by the Wilsdorf Foundation. Rolex U.S.A. is thus wholly owned through two intervening subsidiaries (one American and one Swiss) by a Swiss foundation. Indeed, in

promotional brochures, placed into the record of these proceedings, Rolex U.S.A. holds itself out as having headquarters in Geneva, Switzerland. The Wilsdorf Foundation owns 86 per cent of the outstanding shares of Rolex Geneva.

B. Wal-Mart, Its Watches, and the Customs Service.

In 1986, the United States Customs Service proposed to discontinue protecting Rolex U.S.A. from parallel importation of watches obtained from Rolex Geneva.[3] Customs notified Rolex U.S.A. that it was considered to be under "common ownership or control, either beneficial and/or legal, with a foreign company owning the trademark abroad. . . ." Rolex responded to the Customs Service with a submission that essentially set forth the facts recited above regarding the nature of its enterprise. On the basis of information contained in the submission, Customs reversed its position and continued to protect the ROLEX trademark held by Rolex U.S.A.

Soon afterward, in November of 1987, the Customs Service began what it represented to Wal-Mart personnel as a *criminal* investigation involving the distribution of *illegally* obtained Rolex watches. Petitioners were not targets of this alleged investigation, and they cooperated with the government. In furtherance of the investigation, on January 13, 1988, petitioners voluntarily delivered to the Customs Service 112 genuine new watches bearing the "Rolex Crown" trademark which petitioners had purchased in 1985 and 1986. At petitioners' formal demand, 29 of these watches later were released to petitioners because Customs found they were imported by or with the consent of Rolex U.S.A. The remaining 83 watches, with a stipulated value of $683,000.00, are yet in the custody of the United States government in Houston, Texas. In March 1989, petitioners terminated their consent for Customs Service's continued possession of these watches.

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[3] The watches at issue in this litigation were purchased during this period.

C. Proceedings in the Lower Courts.

On May 17, 1989, the United States filed an *in rem* Complaint for Forfeiture of the remaining 83 Rolex watches in the United States District Court for the Southern District of Texas, asserting federal jurisdiction under 28 U.S.C. §§ 1345 and 1355. The United States alleged that the watches "all bear the Rolex Crown trademark" and were "imported into the United States without the consent of Rolex Watch U.S.A., Inc.," in violation of 19 U.S.C. § 1526.[4] On June 7, 1989, petitioners intervened in the action and filed both a claim to the Rolex watches as sole *bona fide* owner and an Answer to the government's forfeiture complaint. On November 1, 1989, the United States amended its complaint, and petitioners again answered.

Petitioners and the United States entered into a Stipulation of Facts on March 16, 1990, and shortly afterward filed cross-motions for summary judgment. The government's motion sought forfeiture on grounds that the watches were imported for resale without permission of the holder of the American trademark as required by 19 U.S.C. § 1526. Petitioners' motion argued for release of the watches on the grounds that the statute did not apply to Rolex U.S.A. because it was, in reality, a foreign entity. In the alternative, petitioners contended that even if the statute applied to Rolex U.S.A. despite its foreign ownership, importation of the watches was nonetheless legitimate under 19 C.F.R. § 133.21(c) which contains an exception for American and foreign trademark owners

[4] Neither the government's original nor amended complaint based the forfeiture action on use of the ROLEX mark, the only trademark registered by Rolex U.S.A. This fact is highly significant because the "Rolex Crown," on which the forfeiture is premised, is neither registered in the United States nor owned by an American domiciliary. It is owned by Rolex Geneva, a company commonly owned by Rolex U.S.A. Based on the premise for the forfeiture and the government's complaint, claimants are entitled to their property, the 83 watches.

under common ownership or common control. At the hearing on the motions, the government repudiated the original Stipulation of Facts, and an Amended Stipulation of Facts was filed on September 11, 1990. [Appendix E, p. 29a]

On March 19, 1992, the district judge granted the government's motion by Opinion on Summary Judgment [Appendix B, p. 20a] and Final Judgment [Appendix C, p. 26a], ordering forfeiture of the 83 Rolex watches. The district judge found probable cause for the forfeiture, shifting the burden of proof to petitioners to establish a defense in the form of an exception to the statute. The court rejected petitioners' arguments under both regulatory exceptions, holding that 19 C.F.R. § 133.21(c) did not permit parallel importation of the Rolex watches. The court found no "common ownership" of the foreign and American trademark holders by reasoning that the trademark at issue is ROLEX whose foreign owner is Rolex Bienne. The acknowledged common ownership of Rolex Geneva and Rolex U.S.A. did not fall within the exception, the court held, because Rolex Geneva does not own the ROLEX mark. The court declined to find common control between Rolex Bienne and Rolex U.S.A. The government's request for a civil penalty was denied.

Petitioners appealed and were granted a stay pending appeal. Petitioners argued in the Fifth Circuit that Rolex U.S.A., as a foreign-owned corporation, is not entitled to § 526 protection. In the alternative, petitioners presented several arguments supporting application of the regulatory exceptions to § 526. Petitioners first asserted that the trademark placed at issue by the Customs Service was the Rolex Crown, which is owned by Geneva, a company "commonly owned" with Rolex U.S.A. Second, assuming the single word "Rolex" is the registered mark, petitioners contended that Rolex Geneva is the equitable or constructive owner of that mark by virtue of its use on every watch Geneva assembles and distributes. Petitioners next argued that Rolex Bienne, foreign owner of the ROLEX trade-

mark, and Rolex U.S.A., the domestic owner, are subject to common control and thus fall within the regulatory exception. Finally, petitioners contended they were entitled to assert the innocent owner defense to forfeiture bcause they had no knowledge that the watches were imported in violation of the Customs laws and, before purchasing the watches, they had taken reasonable steps to ascertain that the watches were imported legally.

The Fifth Circuit rendered its opinion on May 19, 1993, affirming summary judgment in favor of the United States. [Appendix A, p. 1a] The Fifth Circuit held that an American company that is completely foreign-owned is entitled to the extraordinary protections of § 526. Additionally, relying on the conclusion that the trademark at issue is ROLEX, the court held there was neither common ownership nor common control between Rolex Bienne, the foreign holder of that trademark, and Rolex U.S.A., the "domestic" trademark holder. The court rejected petitioners' innocent owner defense because the watches were purchasd after their importation in violation of the Customs laws.

Petitioners were granted an extension of time in which to apply for rehearing, and on July 2, 1993, filed a Petition for Rehearing and a Suggestion for Rehearing *en Banc*. Both were denied on July 22, 1993. [Appendix D, p. 27a] This Petition for Certiorari is timely filed on September 3, 1993.

REASONS FOR GRANTING THE WRIT

I. THE EXTRAORDINARY PROTECTIONS PROVIDED BY 19 U.S.C. § 1526(a) ARE NOT TO BE EXTENDED TO A U.S. TRADEMARK OWNER SUBJECT TO COMMON OWNERSHIP OR COMMON CONTROL WITH THE FOREIGN TRADEMARK OWNER.

The court of appeals' erroneous reading of the regulations implementing § 526(a) effectively eliminated the "common control" exception to parallel import protection that this Court upheld in *K Mart v. Cartier, Inc.*, 486 U.S. 281 (1988). Left undisturbed, this interpretation of 19 C.F.R. § 133.21(c) would permit a foreign conglomerate, like Rolex, to invoke the extraordinary anticompetitive protection of § 526 while controling both the foreign and domestic market for its goods, so long as the foreign trademark holder did not actually own the domestic trademark holder. This Court should grant review in this case to correct this blatant misreading of the plain language of the regulatory exception which undermines the principle animating that regulation.

The record before the court of appeals did not show an independent American trademark holder seeking to protect its rights. Instead, the record established that Rolex maintains an international enterprise whose interrelated parts own Swiss and American trademarks for Rolex watches and manufacture and distribute Rolex watches worldwide.[5] Under these undisputed facts, even if 19 U.S.C. § 1526(a) would permit Rolex U.S.A. to exclude parallel imports, despite its being wholly owned by foreign

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[5] For purposes of trademark law, the Rolex watch is a single product under the "doctrine of entireties." *See United States v. Watches, Watch Parts, Calculators & Misc. Parts*, 692 F. Supp. 1317, 1320 (S.D. Fla. 1988), in which the Customs Service itself argued that "faceless watch bodies" must be considered together with the watch faces and crystals as constituting one product. *Id.* at 1319.

interests,[6] two regulatory exceptions validate a gray market in Rolex watches.

In *K Mart,* the Court upheld regulations which permit unrestricted importation of products manufactured abroad whose foreign and domestic trademarks are owned by companies under common ownership or common control. The policy underlying the regulation is that the protection granted to American trademark holders should not extend to the "very firm that manufactured the gray-market merchandise abroad, to affiliates of foreign manufacturers, or to firms that authorized the use of their trademarks abroad." *K Mart*, 486 U.S. at 295. This regulatory exception permits a gray market in Rolex watches under two distinct principles which the lower courts refused to acknowledge despite this Court's *K Mart* holding.

The district court and the Fifth Circuit incorrectly applied the regulation to undisputed facts which show that the Swiss Rolex entities and the domestic trademark owner, Rolex U.S.A., are subject to both common ownership and common control as defined in the regulations. "Common ownership," defined in 19 C.F.R. § 133.2(d)(1), "means individual or aggregate ownership of more than 50 percent of the business entity." "Common control," defined in 19 C.F.R. § 133.2(d)(2) "means effective control in policy and operations and *is not necessarily synonymous with common ownership.*" Both lower courts construed "control" to mean "common ownership," and they refused to recognize the significance of the common ownership of the domestic trademark holder and the foreign holder of the combination trademark whose use prompted the seizure. This blatantly erroneous reasoning effectively deleted from the regulation the parallel import exception for domestic and foreign companies under common ownership or common control approved by *K Mart.*

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[6] Petitioners assert, based on congressional intent and administrative interpretation, that § 526 does not apply to a corporation, like Rolex U.S.A., that is wholly owned by a foreign citizen. *See* Section III, *infra,* p. 21.

A. The ROLEX Trademark Is Owned by a Company Under Common Control with Rolex U.S.A.

The international Rolex operations could not exist without "effective control in policy and operations" among the Rolex entities in Bienne, Geneva, and the United States. Although the Fifth Circuit apparently accepted that the Rolex enterprise is "a close and profitable business relationship" (p. 14a *infra*), the court affirmed the district court holding that Rolex U.S.A. and Rolex Bienne are not under common control.[7] This holding flies in the face of the terms and intent of 19 C.F.R. § 133.21(c)(2) whose proper application creates a valid gray market under this Court's *K Mart* opinion.

The Rolex enterprise is similar to the second of the parallel import scenarios described in *K Mart* in which the Court upheld the Custom Service's regulatory exceptions to § 526 for domestic corporations affiliated with foreign manufacturers. As noted in Justice Kennedy's opinion, the Court was unanimous in applying the regulatory exception to permit parallel imports when a domestic subsidiary is the trademark holder for foreign-manufactured goods produced by its foreign parent. 486 U.S. at 292. Even more broadly, Justice Brennan wrote that "the legislative history and purpose of § 526 confirm, and Justice Scalia [whose opinion was joined by the Chief Justice and Justices Blackmun and O'Connor] does not dispute, that if Congress had any particular intent with respect to the application of § 526 to trademark owners

[7] The court of appeals failed to recognize that the Rolex companies are not merely businesses that contract with one another, from time to time, to produce components for a product distributed by one of the companies. The Rolex enterprise is comprised of companies which, for more than 50 years, have sustained a relationship dedicated solely to the production of a single product, the Rolex watch. (*See* footnote 5 *supra.*) There is no indication that Rolex Bienne ever manufactures movements for any timepiece other than the Rolex watch nor that Rolex Geneva ever makes a casing for any other watch or distributes any other product.

affiliated with foreign manufacturers, it was to exclude them from its shield." 486 U.S. at 309.

The Customs Service itself correctly recognized and applied the common control exception to what it described as the "multi-firm Swiss 'Rolex' organization" when it attempted to discontinue protection of Rolex U.S.A. against parallel imports. In a June 16, 1986, letter, placed in the record of these proceedings, Customs withdrew protection because Rolex U.S.A. "is under common ownership or control, either beneficial and/or legal, with a foreign company owning the trademark abroad in circumstances similar to those found by the U.S. District Court in *Parfums Stern . . . .*" The Fifth Circuit completely ignored this undisputed "beneficial" control in holding Rolex U.S.A. entitled to Customs Service protection from imported goods manufactured and sold by its affiliated companies.

The Fifth Circuit decision perpetuates an erroneous interpretation which, as described by the court of appeals, equates common control with "the sort of control that a parent corporation would exercise over a subsidiary or that a common owner might exercise over both organizations." [p. 14a, *infra*] This erroneous holding recognizes only the "common ownership" exception to § 526, emasculating completely the regulation's separate, explicit "common control" exception.

Although the Fifth Circuit found "some appeal" in the proof of common control established by the role of Rolex U.S.A. as "part of a larger closely knit foreign structure," (p. 15a, *infra*), the court chose not to apply the common control exception because it felt constrained to follow courts interpreting the regulations as "focus[ing] on the ownership structure regardless of the practical realities of these business enterprises." *Id.* (citing *United States v. Eighty-Nine (89) Bottles of "Eau de Joy,"* 797 F.2d (9th

Cir. 1986)).[8] This rationale for protecting the Rolex enterprise is diametrically opposed to the regulatory language which provides two distinct categories of exceptions: one based on "ownership structure" and another based on the practical realities of "common control."

The Fifth Circuit decision contradicts both the clear language of the Customs regulation that "common ownership" and "common control" are "not necessarily synonymous." 19 C.F.R. § 133.2(d)(2), as well as the principle of construction that every portion of a statute or regulation must be given effect. When a court thus interprets two separate statutory terms synonymously, it "make[s] either the first or the second condition redundant or largely superfluous, in violation of the elementary canon of construction that a statute should be interpreted so as not to render one part inoperative." *Colautti v. Franklin,* 439 U.S. 379, 392 (1979), *limited on other grounds by Webster v. Reproductive Health Servs.,* 492 U.S. 490 (1989); *Texas Commerce Bank v. United States,* 896 F.2d 152 (5th Cir. 1990).

Practical underpinnings demonstrate the appropriate application of the statutory and regulatory scheme in this case. Like every genuine Rolex, the 83 Rolex watches at issue here originated with the Rolex entity in Geneva which is commonly owned with Rolex U.S.A. by the Wilsdorf Foundation, an enterprise with the authority and means to control world traffic in genuine Rolex watches. Indeed, a situation similar to that presented by the Rolex enterprises was foreseen by the Court in *A. Bourjois & Co. v. Katzel,* 260 U.S. 689 (1923), the decision that

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[8] As noted by the court of appeals, the *"Eau de Joy"* decision relies on *Coalition to Preserve the Integrity of American Trademarks v. United States,* 598 F. Supp. 844 (D.D.C. 1984), which was reversed on appeal, 790 F.2d 903 (D.C. Cir. 1986), and was ultimately decided by this Court in *K Mart v. Cartier.* The *Coalition* decision, and thus *"Eau de Joy,"* have virtually no precedential value on this point, and the Fifth Circuit erred in relying on them.

spawned Section 526. In that case, "the gray-market encroachment . . . would have been considerably less troubling had [the domestic trademark holder] had control over the foreign manufacturer's import conduct or over its sale abroad to third parties," because in such a situation the domestic trademark holder "would essentially have been seeking to protect itself from its own competition." *K Mart*, 486 U.S. at 301. In the present case, unlike in *Katzel*, the worldwide Rolex empire is indeed seeking to protect itself from its own competition; therefore, the regulatory exceptions to § 526 should apply.

In *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir. 1989), the Third Circuit described such an international enterprise which had control over goods the foreign manufacturer sold abroad which were then imported into the United States:

> Weil [the domestic trademark holder] is not independent of the foreign manufacturer. Although it was not incorporated by Lladro, S.A. [the foreign manufacturer], it nonetheless benefits from the corporate relationship that exists. Thus, even if Weil loses some share of its United States market to Jalyn [the importer who legally obtained the product abroad from the manufacturer's distributors], it nonetheless benefits from the profits it received as part of the corporate entity from which Jalyn purchased the goods abroad. Moreover, if that corporate entity decides that the profit margin from the sale of goods to Jalyn abroad is not as significant as would be the profit margin from a United States market in which Jalyn did not compete, it has an obvious self-help mechanism: it can cease the sale to Jalyn abroad and thereby eliminate effectively its United States competition with Weil.

Id. at 668. Although the nature of the corporate relationships in *Weil* was not identical with that among the Rolex companies, the mutual benefits and control mechanism are the same. Common control exists in practice; therefore,

Rolex U.S.A. should not be entitled to preclude the importation of goods that originate with its corporate affiliates.

When the Customs Service attempted to withdraw protection from Rolex in 1986, it compared the Rolex enterprise to the international conglomerate described in *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983), in which the domestic trademark holder of Oscar de la Renta was not permitted to enjoin parallel importation by persons who obtained goods from affiliated entities. The Rolex enterprise is indeed quite similar to the corporate organization in *Parfums Stern*, in which the registered domestic trademark holder was described as

> a cog or entity in what appears to be a single international enterprise operating through an amoeba-like structure consisting of members of Milton Stern's family, various parent and subsidiary corporate enterprises, both foreign and domestic, interrelated, each to the other or to the Sterns. This conglomerate consists of corporations incorporated under the laws of several states of the United States as well as several foreign corporations . . . . This entity, either by reason of holding the Oscar de la Renta trademark or by way of license and/or contractual rights granted to it or one of its entities, holds the right to manufacture, distribute, promote, or otherwise utilize Oscar de la Renta fragrance products throughout the world.[9]

Id. at 418.

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[9] The Fifth Circuit refused to follow *Parfume Stern* because the published opinion did not sufficiently detail the corporate relationships. [p. 14a, n.15 *infra*] This reasoning is indicative of the court of appeals' error in interpreting the regulation. If "common control" was intended to be dependent on specific corporate relationships, the *regulation* would have particularized the circumstances in which common control exists. (*Cf.*, "common ownership" is defined explicitly as "ownership of more than 50 percent.") The broad term "common control" therefore bespeaks an intention that the regulation be interpreted in a flexible, practical manner.

As was the foreign company in *Parfums Sterns,* Rolex is seeking to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources. If the Rolex entities desire to stop the gray-market importation of their goods into the United States, they may do so without relying on the United States government. Customs Service protection is not only unwarranted, it is not necessary. The courts below have permitted the Customs Service to foster a foreign monopoly to the detriment of American consumers. The only remedy lies in this Court.

B. The "Rolex Crown" Trademark Is Owned by a Company Under Common Ownership with Rolex U.S.A.

Both the district court and the court of appeals chose to ignore that petitioners' watches were seized based on the "Rolex Crown" trademark imprinted on each of the watches. [Appendix F, p. 35a] *See* Complaint for Forfeiture, Amended Complaint for Forfeiture, Stipulation of Facts, and Amended Stipulation of Facts. [Appendix E, p. 29a] [10] It is undisputed that the "Rolex Crown," and several other Rolex trademarks, are owned by Rolex Geneva. It also is not disputed that Rolex U.S.A. can trace 100 percent of its ownership to the Wilsdorf Foundation which also owns 86 percent of Rolex Geneva. Thus, the domestic holder of the ROLEX mark and the foreign distributor/owner of the "Rolex Crown" mark are under "common ownership" as defined in 19 C.F.R. § 133.2 (d)(1), and a gray market should be permitted under the Customs Service's "common ownership" exception.

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[10] Due process requires strict construction of a forfeiture complaint. *See United States v. One Heckler-Koch Rifle,* 629 F.2d 1250 (7th Cir. 1980); *Stapleton v. $2,438,110,* 454 F.2d 1210 (3d Cir.), *cert. denied,* 409 U.S. 894 (1972); *see also Austin v. United States,* 113 S. Ct. 2801 (1993). Therefore, the terms of the complaint cannot be expanded during the course of the proceeding to modify the basis for the seizure. Petitioners never acquiesced in any contention or holding that the seizure was based on use of the ROLEX mark.

The lower courts avoided this result by making artificial distinctions among the Rolex companies that in practice do not exist. To preclude parallel imports of Rolex watches, the courts below concluded that the ROLEX mark, owned by Rolex Bienne, is the trademark at issue, and that use of the name "Rolex," even in a combination mark, requires permission of the domestic holder of the ROLEX trademark or a showing that Rolex Bienne and Rolex U.S.A. are commonly owned or controlled. This holding ignores not only the complaints filed against petitioners but the practical realities of the use of the various Rolex marks. Rolex Geneva has registered, both within Switzerland and in other countries, the "Rolex Crown" mark and other trademarks containing the "Rolex" name. As exclusive worldwide distributor of Rolex watches, Rolex Geneva has developed considerable goodwill from using that name, perhaps greater recognition than any member of the Rolex family by virtue of having its corporate name imprinted on the casing of every Rolex watch. The ruling that Rolex U.S.A., domestic holder of the ROLEX mark, and Rolex Geneva, holder of the "Rolex Crown" mark, are not using and deriving benefit from the same trademark defies reality, common sense, and the purpose of the exception granted to trademark holders under common ownership. The ruling should be reversed.

II. THE COURT OF APPEALS RULING APPROVING FORFEITURE OF THE WATCHES CONFLICTS WITH PRINCIPLES ARTICULATED IN THIS COURT'S RECENT FORFEITURE DECISIONS.

Petitioners purchased the watches at issue, worth almost $700,000, at a time when the United States Customs Service viewed all importation of authentic Rolex watches as lawful. After petitioners purchased the watches, Customs was persuaded by Rolex to accept an exceedingly technical interpretation of its regulations and to apply that interpretation to facts concerning ownership of the foreign

trademarks that were, at the time of the watches' importation, exclusively within the knowledge of Rolex. By validating forfeiture on the basis of this reversal in Customs' position, the decisions of the courts below conflict with the principles underlying this Court's very recent decisions in two forfeiture opinions issued while this case was pending in the Fifth Circuit. The holdings in *United States v. 92 Buena Vista Avenue*, 113 S.Ct. 1126 (1993), and *Austin v. United States*, 113 S.Ct. 2801 (1993), require reversal and remand to the district court.

This Court's recognition of the innocent owner defense in *Calero-Toledo v. Pearson Yacht Leasing Co.*, 416 U.S. 163, 689 (1974), which the court of appeals brushed off as "dicta" (p. 18a, *infra*), has been reinforced by the Court's latest decisions in the area of forfeiture. When the watches were imported and when they were sold to petitioners, the Customs Service was content to allow authentic Rolex watches free entry into the United States regardless of the wishes of the American trademark owner. To order forfeiture of these watches because of a change in the Customs Service's position is to penalize an "innocent owner" whose acquisition of the property parallels that of the owner in *Buena Vista* who was held entitled to assert the defense. Ignoring *Buena Vista,* the Fifth Circuit declared that petitioners could not be "innocent purchasers" because their "ownership of the watches arises only after the unauthorized importation." [p. 19a, *infra*] This formalistic concept—*i.e.*, the view that the goods being forfeited became, in theory, government property at the instant the allegedly unlawful act took place and cannot be rehabilitated thereafter even by a *bona fide* purchaser for value—was squarely rejected by a plurality of this Court. 113 S.Ct. at 1134-35. This Court said in *Buena Vista* that the "innocence" of the owner is an issue to be determined when the forfeiture action is filed; "the fictional and retroactive vesting was not self-executing." *Id.* at 1135.

Moreover, under the Court's other recent forfeiture decision, the penalty exacted from petitioners amounts to an "excessive fine" under the Eighth Amendment. In its *Austin* decision, the Court held that certain statutory forfeitures were subject to the limitations of the Eighth Amendment. The forfeiture prescribed by 19 U.S.C. § 1595a(c)—of "any merchandise that is introduced or attempted to be introduced into the United States contrary to law"—comes within the *Austin* ruling.

A fine of almost $700,000 is a plainly excessive penalty to exact for the good faith purchase of authentic watches whose importation was considered lawful at the time. Under *Austin*, petitioners are entitled to have the district court consider the excessiveness of the penalty. The Court refused in its *Austin* opinion to enumerate factors that would inform the determination of whether a forfeiture is "excessive," instead permitting the lower courts to fashion and apply appropriate guidelines. 113 S.Ct. at 2812. The Court did, however, acknowledge the significance of whether "the owner had done all that reasonably could be expected . . ." *Id.* at 2809. That description applies to this case because petitioners purchased Rolex watches that were imported in accord with prevailing Customs Service opinion. As in *Austin*, the property owner here should be permitted to present its case to the lower courts for application of this and other appropriate factors.[11]

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[11] The elements of the innocent owner defense, as available in a forfeiture instituted under the Endangered Species Act of 1973, 16 U.S.C. § 1538(a)(1)(A), were described in *United States v. 8,210 Crusted Sides of Caiman Crocodilus Yacare*, 636 F. Supp. 1281, 1286-87 (S.D. Fla. 1986) (citing *Calero-Toledo v. Pearson Yacht Leasing Co.*, 416 U.S. 663, 689 (1974)). The elements, which petitioners attempted to establish in the courts below, are that the claimant "must demonstrate a lack of involvement in the underlying wrongful activity, lack of knowledge of the wrongful activity, and that the claimant has done all that was reasonably possible to prevent the illegal use of his property."

The distinctions on which the court below relied—invoked in the Sixth Circuit's ruling in *United States v. One 1984 Mercedes-Benz Model No. 380 SE*, 836 F.2d 268 (6th Cir. 1988), and in the Eighth Circuit's ruling in *United States v. One Cessna Model 210L Aircraft*, 890 F.2d 77 (8th Cir. 1989)—are rendered questionable by the more recent statements of this Court. Moreover, decisions of the Fifth, Sixth, and Eighth Circuits are now aligned against the holding of the Second Circuit in *United States v. One Tintoretto Painting Entitled "The Holy Family with St. Catherine and Honored Donor,"* 691 F.2d 603 (2d Cir. 1982), in which the owner of a painting smuggled into the United States by a business partner was permitted to assert the defense of innocent ownership.

When the Fifth Circuit rejected petitioners' innocent owner defense, it thus sharpened the conflict among the circuit courts of appeals and failed to consider this Court's holdings in *Buena Vista* and *Austin*. This Court should grant *certiorari* to resolve the conflict among the lower courts and to apply its recent teachings in the area of forfeiture.

III. THE EXTRAORDINARY PROTECTION THAT 19 U.S.C. § 1526(a) PROVIDES TO CORPORATIONS CREATED OR ORGANIZED WITHIN THE UNITED STATES SHOULD NOT BE AVAILABLE TO A WHOLLY OWNED SUBSIDIARY OF A FOREIGN PARENT BECAUSE SUCH A COMPANY IS NOT A DOMESTIC CORPORATION AS CONTEMPLATED BY THE STATUTE.

The foregoing discussion presupposes that foreign-owned Rolex U.S.A. may invoke the protections of § 526(a). Petitioners submit that it may not. Congress did not intend § 526(a) to further the monopolistic efforts of an enterprise wholly owned and controlled by foreign interests. By giving an overly narrow construction to a statute intended to protect purely American compa-

nies from imports of trademarked goods, the Fifth Circuit has created a facile means for any foreign entity to circumvent the intent of the Customs law and secure official protection for international price discrimination.

The protection granted to certain holders of trademarks registered in the United States has been described as "extraordinary." *K Mart*, 486 U.S. at 295. "A United States trademark holder covered by § 526 can prohibit or condition all importation of merchandise bearing its trademark, thereby gaining a virtual monopoly, free from intrabrand competition, on domestic distribution of any merchandise bearing the trademark." *Id.* In affirming summary judgment for the United States, the Fifth Circuit held "[n]othing in the case law, legislative or regulatory history suggests that an American company under foreign ownership may not avail itself of § 526 protection." [p. 11a, *infra*] This holding ignores both the letter and spirit of the law which demonstrate that the import prohibition should not extend to a foreign-owned corporation like Rolex U.S.A.

If foreign interests may control gray-market import of their goods merely by incorporating a domestic subsidiary, the statute is a sham because any foreign company could invoke the "protectionist" provisions of § 526 to prohibit parallel imports of its genuine goods. The grave error in the Fifth Circuit's interpretation of 19 U.S.C. § 1526 creates a loophole, unintended by Congress, that can be corrected only by this Court.

As shown by the proceedings in the courts below and by the varying applications given § 526 in reported cases, the nature of the entities entitled to prohibit parallel imports has been subject to differing interpretations, particularly, as the Court noted in *K Mart*, when the issue involves affiliates of foreign manufacturers. 486 U.S. at 298. In cases attempting to apply the statutory terms in a number of situations, courts, including this Court in *K Mart*, have struggled with the meaning of a trademark "owned by" a corporation which is "created or organized"

within the United States. This case presents an opportunity for this Court to resolve these issues.

"If a court, employing traditional tools of statutory construction, ascertains that Congress had an intention on the precise question at issue, that intention is the law and must be given effect." *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 n.9 (1984). There can be no serious argument but that Congress intended Section 526 of the Tariff Act to protect only "American" firms. Expressions of this intention pervade the legislative history.[12] Justice Brennan described the congressional intent underlying § 526 in his opinion in *K Mart*.

> The most blatant hint that Congress did not intend to extend § 526's protection to affiliates of foreign manufacturers . . . is the provision's protectionist, almost jingoist, flavor. Its structure bespeaks an intent, characteristic of the times, to protect only domestic interests. A foreign manufacturer that imports its trademarked products into the United States

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[12] *See, e.g.*, Tariff Act of 1922, Pub. L. No. 67-318, Preamble ("An Act . . . encourage the industries of the United States . . . ."); Tariff Act of 1930, Pub. L. No. 71-361, Preamble ("An Act . . . to encourage the industries of the United States [and] to protect American labor . . . ."); H.R. Conf. Rep. No. 1223, 67th Cong., 2d Sess at 158 (The purpose of Section 526 is to protect "the American manufacturer or producer"). *See generally* 62 Cong. Rec. 11,602-05 (1922) (Senate debate and passage). *See also United States v. Guerlain, Inc.*, 155 F. Supp. 77, 81 (S.D.N.Y. 1957), *vacated on other grounds*, 358 U.S. 915 (1958) ("[I]t appears from [congressional] debate that the purpose of the section was to protect the rights of Americans who bought foreign trade-marks and that it was aimed at the [situation of] an American trade-mark owner independent of the foreign manufacturer."); Recent Case, 71 Harv. L. Rev. 564, 565 (1958) ("Section 526 was not intended to protect an American trademark owner which with the affiliated foreign manufacturer and seller of the goods constitutes a 'single international enterprise'."); Note, 64 Yale L.J. 557, 566 (1955) (The "legislative history indicates that [§ 526] was designed to protect *independent* American trade-mark owners.") (Emphasis in original.)

> . . . cannot protect itself against parallel importation merely by registering its trademark in the United States: It is not a "person domiciled in the United States."

486 U.S. at 297. The opinion went on to acknowledge that the

> barriers that Congress erected seemed calculated to serve no purpose other than to reserve to domestic, not foreign, interests the extraordinary protection that § 526 provides. But they are fragile barriers indeed if a foreign manufacturer might bypass them by the simple device of incorporating a shell domestic subsidiary and transferring to it a single asset—the United States trademark. Such a reading of § 526 seems entirely at odds with the sentiment that inspired the provision. If a foreign manufacturer could insulate itself so easily from the competition of parallel imports, much of § 526's limiting language would be pointless.

Id. at 298.

It is clear, although the courts below refused to so recognize, that Rolex U.S.A., a 100 percent foreign-owned company, is composed of foreign, not domestic, interests. It therefore seems inconceivable that Congress intended to permit the Rolex enterprise, through its American subsidiary, Rolex U.S.A., to avail itself of the statutory protection against parallel imports. The Fifth Circuit nonetheless permitted this blatant circumvention of the statutory purpose.

This decision not only violates the letter and intent of the law but conflicts with previous Customs Service practice. *See Yamaha Corp. v. ABC Int'l Traders Corp.*, 703 F. Supp. 1398, 1403 (C.D. Cal. 1988), *aff'd in part, rev'd in part on other grounds,* 940 F.2d 1537 (9th Cir. 1991), *cert. denied,* 112 S. Ct. 1177 (1992) ("the protection provided to American trademark holders by the Tariff Act has been consistently interpreted by U.S. Customs for more than 50 years not to be available to Ameri-

can subsidiaries of foreign corporations"). As published in the Federal Register in 1989, following the *K Mart* decision, *Proposed Removal of Customs Regulation on Gray Market Goods* stated,

> In the implementation of [§ 526], the Customs Service, through its regulations, took the position that the seizure of articles bearing genuine trademarks was a *remedy reserved to independent American firms*. This position was based on the Government's view of the statute's legislative history, Customs long-standing practice and express Congressional recognition of that practice.

54 Fed. Reg. 51,035 (1989) (emphasis added).

Indeed, at the time petitioners purchased the Rolex watches at issue, the Customs Service was interpreting the statute consistently with petitioners' position by denying Rolex U.S.A. the gray-market protection it now extends to it. In the June 16, 1986, letter to counsel for Rolex U.S.A., the government expressed its construction of the statute:

> Our record shows that Rolex Watch U.S.A., Inc. is wholly owned by Rolex Industries, Inc., which in turn is a subsidiary of Rolex Holding, S.A., Geneva, Switzerland. After review of the legislative, litigative and administrative history of section 526(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1526(a)), it is our opinion that the intent of the law is not to protect foreign owned or controlled firms against the importation of genuine articles bearing trademarks registered in the PTO and recorded with Customs by those firms.

The Customs Service's present reliance on a contrary interpretation of the statute is an arbitrary exercise of its power to seize property acquired by a good faith purchaser. This administrative ambivalence is further grounds for this Court's intervention to determine definitively who has the right to invoke the protection of the statute.

The nature of a wholly owned subsidiary—completely under the control of its corporate parent—mandates that it be treated like the parent. The Court recognized the inherent unity of the corporate parent and subsidiary for purposes of the Sherman Act in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984):

> [T]he coordinated activity of a parent and its wholly owned subsidiary must be viewed as that of a single enterprise. . . . A parent and its wholly owned subsidiary have a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one. They are not unlike a multiple team of horses drawing a vehicle under the control of a single driver. With or without a formal "agreement," the subsidiary acts for the benefit of the parent, its sole shareholder.

Id. at 771. Under *Copperweld*, the interests of Rolex U.S.A. cannot be separated from those of its foreign parents. Rolex U.S.A. has no interests independent of its Swiss parents; therefore, the ownership and control Rolex U.S.A. exercises over its American-registered trademarks are exercised ultimately by corporations that are not "created or organized within the United States." Section 526 therefore should not apply.

The decision of the court of appeals applies a statute intended to protect American companies to help the Swiss-based Rolex empire maintain artifically high prices in the United States. Neither the statute nor congressional intent nor administrative history supports such a holding. Rolex U.S.A., and other domestic subsidiaries of foreign interests, are not entitled to protection by the United States Customs Service under 19 U.S.C. § 1526(a). This Court should grant *certiorari* to so hold.

CONCLUSION

In *K Mart v. Cartier*, 486 U.S. at 296, the Court described as "largely unsuccessful" the "battle" waged in legislative, executive, and administrative fora by United States trademark holders and their affiliates against the gray market permitted by 19 U.S.C. § 1526 and its implementing regulations. Now, the Court noted, the battleground has moved to the judicial system where the attackers claim that the government "is (and since 1922 has been) statutorily required to extend to them the same exclusionary powers as it extends to what the Court refers to as the 'prototypical' gray-market victim." *Id.* Like *K Mart*, this case is a skirmish on the judicial battleground that requires resolution by this Court because the lower courts have proclaimed the wrong victors.

Because it is the duty of the courts to apply the law and to enforce the intent of the legislative branch, the outcome of battle in the judiciary should not differ from that already waged in the other branches. Yet, in this case, the lower courts reached a result that differs from express statutory and regulatory language, from the congressional intent, and from the Custom Service's own historic interpretations. This error creates opportunities for foreign corporate enterprises to monopolize U.S. markets, a result that can be corrected only by this Court.

Accordingly, petitioners respectfully request that the Court grant *certiorari* to decide all questions presented and to reverse the decisions of the lower courts. If petitioners are correct in urging the Court to review the issues asserted in Question 2, the case should be remanded for presentation of facts supporting those issues.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 92-2266

UNITED STATES OF AMERICA,
Plaintiff-Appellee,
versus

EIGHTY-THREE ROLEX WATCHES,
Defendant,
versus

SAM'S WHOLESALE CLUB and
WAL-MART STORES, INC.,
Claimants-Appellants.

Appeals from the United States District Court
for the Southern District of Texas

[Filed May 21, 1993]

Before REYNALDO G. GARZA, HIGGINBOTHAM and DEMOSS, Circuit Judges.

DEMOSS, Circuit Judge:

I. Background

This appeal involves a forfeiture of 83 Rolex Watches, so-called "gray market" goods, in the inventory of Sam's Wholesale Club. Sam's Wholesale Club and Wal-Mart Stores, Inc., its parent, (collectively, Wal-Mart) inter-

vened as owner of the watches. On cross-motions for summary judgment, the district court ordered forfeiture. We affirm.

A. Statute and Regulations

Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, prohibits the importation of any merchandise bearing a trademark "owned by a citizen of, or by a corporation . . . created or organized within, the United States," and registered in the Patent and Trademark Office by a person domiciled in the United States, without written consent of the domestic trademark owner.

Customs regulations provide that the § 526 import prohibition is inapplicable if "both the foreign and the U.S. trademark . . . are owned by the same person or business entity," or if "the design and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control." 19 C.F.R. § 133.21(c)(1) and (2). The regulations define "common ownership" as "individual or aggregate ownership of more than 50 percent of the business entity." "Common control" is defined as "effective control in policy and operations and is not necessarily synonymous with common ownership." 19 C.F.R. § 133.2 (d)(1) and (2).

B. Rolex

On March 15, 1983, Rolex Watch U.S.A. Inc., a New York corporation (Rolex USA), recorded its ownership of the "ROLEX" trademark with Customs. The recordation form stated that Rolex USA consented to importation of two articles "bearing the 'ROLEX' trademark" upon entering the United States if for personal use and not for sale, but that otherwise importation of these articles was forbidden unless consigned to or for the account of Rolex USA.

On June 16, 1986, Customs sent attorneys for Rolex USA a letter, advising that Customs had decided "not [to]

continue to provide protection to Rolex Watch, U.S.A., Inc., against the importation of genuine "ROLEX" watches (so-called "gray market" goods)." Customs denied continued protection because Rolex USA "is under common ownership or control, either beneficial and/or legal, with a foreign company owning the trademark abroad in circumstances similar to those found by the U.S. District Court in *Parfums Stern, Inc. v. United States Customs Service,* 575 F. Supp. 416 (U.S.D.C. S.D. Fla. 1983)." [1]

In response, the Rolex USA attorneys filed a submission contending that Customs should continue to protect Rolex USA against unauthorized gray market imports because Rolex USA is not under common ownership or control with the foreign Rolex trademark owner. The submission explains that the Swiss manufacturer of Rolex watches, and the owner of the Swiss "ROLEX" trademark, is Manufacture des Montres Rolex S.A. Bienne (Bienne). Bienne has assigned the U.S. Registration for the "ROLEX" mark and good will to Rolex USA. The worldwide distributor of Rolex watches manufactured by Bienne is Montres Rolex S.A. (Geneva) located in Geneva, Switzerland. Bienne has authorized Geneva to obtain various registrations for Rolex combination marks in Switzerland, such as Rolex Crown, Tite Fit and Oyster Perpetual. However, under Swiss law, Bienne remains the owner of the "ROLEX" trademark.

Geneva and Rolex USA are under common ownership. Rolex USA is wholly owned through two intervening subsidiaries (Rolex Industries, Inc. and Rolex Holdings, S.A.) by the Wilsdorf Foundation of Geneva, Switzerland (Wilsdorf). Wilsdorf also owns 86% of Geneva.

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[1] In *Parfums Stern,* the district court denied protection to the domestic trademark owner because it and the foreign trademark owner were part of a "single international enterprise." 575 F. Supp. at 420.

By contrast, the only link between Bienne and Geneva is a shareholder, Dr. Harry Borer, who owns a mere 26 shares of Geneva, representing .43% of Geneva's 6000 outstanding shares. Dr. Borer is a also shareholder, officer and director of Bienne. Wilsdorf, however, owns no shares of Bienne. Bienne has a five-member board of directors of which no member sits on the boards of Geneva, Wilsdorf or Rolex USA. Bienne has seven officers none of which is a director or officer of Geneva, Wilsdorf, or Rolex USA. Bienne and Geneva, however, jointly own Rolex Le Locle S.A. (Le Locle), which owns the building in Le Locle, Switzerland, where Geneva and Bienne each lease separate premises.

In addition to addressing the issue of common ownership and control, the Rolex USA submission to Customs contended that gray market imports undercut its investment in customer goodwill associated with the "ROLEX" trademarket. Rolex USA contended that gray market importers provide inferior inspection and testing of the watches, substitute nongenuine watch parts, and provide inferior warranty service and parts replacement. Rolex USA asserted that gray market importers unfairly compete by taking a "free ride" on Rolex USA's goodwill, without incurring the advertising and quality control costs.

In response to the submission, Customs reversed its position and decided to continue protecting the "ROLEX" trademark under § 526. Customs then pursued this forfeiture of 83 Rolex watches from the inventory of Sam's Wholesale Club, which were imported without Rolex USA's permission. The parties stipulated that the watches were manufactured by Bienne and sold by Geneva, and that Geneva's company name ("Montres Rolex, S.A., Geneva") is imprinted on every watch casing.

C. District Court

The district court held on cross-motions for summary judgment that the watches should be forfeited under § 526. As for the regulatory exception, the district court held that Wal-Mart failed to show that Rolex USA and Bienne, the domestic and foreign owners of the "ROLEX" mark, were subject to common ownership or control. Significantly, the district court found that the mark at issue is the "ROLEX" mark, owned by Bienne, not the combination mark "Rolex Crown", owned by Geneva. The court reasoned, "as long as the 'Rolex' mark is on the watch, the importer must first obtain Rolex USA's permission." Rec. Vol. 6 at 377.

II. Analysis

Wal-Mart's arguments for reversal are as follows. Initially, Wal-Mart contends that Rolex USA, as a foreign-owned corporation, is not entitled to § 526 gray market protection. Alternatively, Wal-Mart argues that the Rolex entities are subject to common ownership or control and therefore fall within the regultory exception to the statute. Finally, Wal-Mart submits that it is an "innocent owner" of the watches, and forfeiture is inappropriate.

A. Applicability of § 526

Wal-Mart first asks this court to narrow the protection afforded by § 526. Wal-Mart argues that Congress in § 526 intended only to protect domestic companies and not foreign-owned companies such as Rolex USA. Wal-Mart asserts that the Supreme Court in *K-Mart Corp. v. Cartier, Inc.*[2] interpreted the phrase in § 526, "a trademark owned by a . . . corporation created or organized within, the United States" to mean an exclusively Ameri-

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[2] 486 U.S. 281, 290, 108 S. Ct. 1811, 1817, 100 L. Ed. 2d 313 (1988). The Court held that the Customs Regulations 19 C.F.R. § 133.21(c)(1) and (2) were consistent with § 526.

can corporation and not one, such as Rolex USA, that is a wholly-owned subsidiary of a foreign-based conglomerate. Wal-Mart's argument, however, misconstrues the holding in *K-Mart* and ignores the history and development of the Tariff Act, the Customs regulations and the related case law.[3]

First, Wal-Mart mischaracterizes the holding in *K-Mart* where the Court was faced with a challenge to the validity of the regulatory exceptions. The *K-Mart* court gave several examples of how trademark owners can be subject to gray market imports. The court analyzed each of the gray market examples and concluded that Congress intended not to protect subsidiaries of foreign manufacturers from parallel imports. Justice Brennan in his concurrence reasoned that the statute's protectionist, "almost jingoistic, flavor" bespeaks an intention not to protect a subsidiary created here to register the trademark on the parent's behalf, but he was considering the case where the foreign parent also owned the trademark. *Id.* at 1821 (Brennan, J. concurring).[4] This holding, however, cannot be construed to exclude Rolex USA from § 526 protection.[5]

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[3] "Although the plain language of a statute should be the starting point to determine Congressional intent, statutory language cannot control if clearly demonstrated Congressional intent requires a different construction. Legislative history is important evidence of Congressional intent. And in construing a statute, the administrative practice of the agency charged with administering the statute is entitled to substantial deference. Therefore, a careful examination of the legislative and administrative history is essential in determining the intended scope of § 526." *Vivitar Corporation v. United States*, 593 F. Supp. 420 (C.I.T. 1984) (citations omitted); *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985).

[4] ". . . it will not even suffice for the foreign manufacturer to incorporate a subsidiary here to register the trademark on the parent's behalf, if the foreign parent still owns the trademark." *Id.* 108 S. Ct. at 1821 (Brennan, J., concurring).

[5] Wal-Mart also cites that two other cases to support its argument that a foreign related company can not avail itself of § 526

Second, Wal-Mart ignores the development of § 526 and its related regulations. Section 526 was first enacted as part of the Tariff Act of 1922 to reverse the effect of a Second Circuit case, *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). In that case, the court declined to enjoin the parallel importation of goods bearing a trademark that a domestic company had purchased from an independent foreign manufacturer at a premium. In *Katzel*, the domestic company seeking protection was a " 'prototypical gray-market victim'—a United States trademark holder that purchased its trademark rights, at arm's length and at substantial cost, from an unaffiliated foreign producer." *K-Mart*, 486 U.S. at 287, citing *Katzel*.

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protection. *Parfums Stern v. United States Customs Service*, 575 F. Supp. 416 (S.D.Fla. 1983); *Vivitar Corp. v. United States*, 593 F. Supp. 420 (C.I.T. 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986). These cases are inapposite.

In *Parfums Stern*, a corporation that owned the U.S. trademark and license to manufacture and distribute talcum powder, sued challenging importation of fragrances bearing the trademark. The court found that the "American" plaintiff was, in fact, "a cog or entity in what appears to be a single international enterprise operating through an amobea-like structure." *Id.* at 418. The court refused to grant an injunction against gray market importation. In *Vivitar*, the Court of International Trade refused to issue a declaratory judgment to exclude all imports of genuine Vivitar products without the consent of the U.S. owner of the mark. The source of the gray market goods was the parent company of the American trademark owner.

These cases do not stand for the proposition that Wal-Mart suggests. The *Parfums Stern* case does not clearly describe the type of relationship between the foreign and domestic trademark holders, but simply holds that the U.S. trademark holder was seeking the protection of the trademark laws to insulate itself from what it placed in motion itself through its own "strongly related" foreign manufacturers and distribution sources. In *Vivitar*, the U.S. trademark owner marketed its equipment outside of the U.S. through its wholly-owned subsidiaries, which were not licensed to market the goods in the U.S. This holding is fully consistent with the Customs regulations concerning common ownership and control, and the cases are not supportive of Wal-Mart's position.

The legislative history of § 526 clearly reveals that reversal of *Katzel* was the purpose of the section.[6] Senator Sutherland, a proponent of the bill, noted that:

> [A]ll that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trademarks by shipping over to this country goods under those identical marks.

Id. at 11603.

Shortly after § 526 became law, the Supreme Court reversed *Katzel* and held that the Trademark Act of 1905 prohibited importation of trademark goods from a foreign manufacturer who had sold the American trademark to the plaintiff. The court based its decision on the law governing assignment of trademark rights.[7]

Section 526 was reenacted without change as part of the Tariff Act of 1930 in the face of a proposed amendment, to encourage domestic production, that would have

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[6] The Conference Report notes:

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud on the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark.

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

[7] *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689, 691, 43 S. Ct. 244, 245, 67 L. Ed. 464 (1923); Trademark Act of 1905, Pub.L. No. 58-84, § 10, 33 Stat. 727 (1905). In a similar case, the Supreme Court held that § 27 of the 1905 Act, 19 U.S.C. § 1124, required the same result. *A. Bourjois & Co., Inc. v. Aldridge*, 263 U.S. 675, 44 S. Ct. 4, 68 L. Ed. 501 (1923), *answering questions certified at* 292 F. 1013 (2d Cir. 1922).

prohibited importation of all goods bearing a U.S. registered trademark. 71 Cong. Rec. 3871 (1929).

The initial Customs Regulations promulgated shortly thereafter suggest a broad application of § 526.[8] If Customs intended a sweeping result, that view was short lived. In 1936, Customs issued a new regulation interpreting § 526. The regulation prohibited importation of U.S. registered trademarked goods but excepted goods bearing a foreign trademark which is identical to the U.S. trademark and which is owned by the "same person, partnership, association, or corporation." T.D. 48537 (1936). Therefore, § 526 protection was not extended if the same entity owned the foreign and domestic trademarks. Thus, the plaintiff in *Katzel* that bought certain United States trademark rights was protected from imports of genuine goods bearing the trademark of the foreign company that sold its U.S. rights.

In 1953, Customs expanded its construction of § 526 and adopted a provision denying protection to a domestic trademark owner if it was a "related company" to the foreign manufacturer.[9] In 1959, however, Customs re-

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[8] "Prohibition of Entry—Entry is prohibited of imported merchandise bearing a genuine trade-mark when such trade-mark is recorded with the Treasury Department . . ." Customs Regulations of 1931, Article 518(a).

[9] The term "related company" was defined in § 45 of the Lanham Act as "any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."

Despite the change, it has been said that Customs interpreted the regulation in accordance with its previously stated policy. *See, Vivitar*, 593 F. Supp. at 430, quoting a 1951 letter written by Commissioner of Customs Frank Dow explaining Customs' policy to Senator Paul Douglas. The letter concludes the following:

> However, if the United States trademark owner and the owner of the foreign rights to the same mark are one and the same

vised the regulation to eliminate the related company provision and return to the "same company" formulation. The court in *Vivitar* opined that the amendment did not reflect a substantive change in Customs' policy, especially since the amendment retained the limitation based on ownership of the foreign and domestic trademark by the same person, partnership, association, or corporation.[10]

Enacted in 1972, the current regulations 19 C.F.R. § 133.21(c)(1) and (2) were enacted in response to a

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person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.

[10] In *Vivitar*, the court quotes several letters to illustrate that Customs maintained a consistent application of the regulation even though the wording was changed. In the letters, Deputy Commissioner Flinn wrote in 1963:

> It has been the Bureau's position for many years that in permitting anyone to import merchandise manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner is the correct interpretation of section 526 . . .

In 1962 Flinn wrote:

> . . . a foreign wholly owned subsidiary and its United States parent corporation are the same corporation within the meaning of . . . [the] Customs Regulations. This interpretation has been consistently applied for some years before the insertion of the "related companies" provision in the customs regulations and since the "related companies" provision was deleted from the regulations in 1959.

In 1968, Paul K. McCarthy, Assistant Director (Restricted Merchandise) for Customs wrote:

> . . . if any goods sold to markets abroad by a foreign branch, subsidiary, or agent should be offered for importation into the United States, those goods would be considered to bear genuine . . . trademarks and would be admissible to entry. This portion is based on the legislative and judicial history of [§ 526].

group of antitrust cases, known as the "perfume" cases.[11] In those cases, the district court held that § 526 did not protect a United States company against parallel imports because it was part of an international enterprise. On appeal to the Supreme Court, the Government requested that the judgment be vacated and remanded to the district court where the government could dismiss its own case to allow legislation restricting § 526 to be submitted. Congress, however, did not change the section. Thereafter, the regulations were promulgated allowing the unrestricted importation of trademarked products manufactured abroad where both the foreign and American trademark rights are owned by the same company or companies under common ownership or control.

Nothing in the case law, legislative or regulatory history suggests that an American company under foreign ownership may not avail itself of § 526 protection. We agree with the district court that in order to allow parallel imports of goods bearing the "ROLEX" mark, Wal-Mart must show that the domestic and foreign owners, Rolex USA and Bienne, are subject to the common ownership or control exception to § 526.

B. Common Ownership or Control

1. Which Mark?

The district court concluded that "the mark for the word 'Rolex' . . . is the mark at issue." Rec. Vol. 6 at 380. The court also concluded that Bienne "has always exclusively owned the 'Rolex' mark." *Ibid.* Therefore, Wal-Mart is required to show that Rolex USA and Bienne, the domestic and foreign owners of the "ROLEX" mark, are subject to "common ownership or control." Wal-Mart argues that this finding is clearly erroneous because in the Amended Stipulation of Facts, both par-

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[11] *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915, 79 S. Ct. 285, 3 L. Ed. 2d 236 (1958), *action dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959).

ties agreed that the mark at issue was the "Rolex Crown" mark owned by Geneva, which is subject to common ownership with Rolex USA.[12] Alternatively, Wal-Mart argues that Geneva constructively owns the "ROLEX" mark. Both arguments lack merit.

The district court properly based its finding on the actual recordation document identifying Rolex USA as the owner of the rights to the "ROLEX" mark in the United States. See, Government Exhibit 1, Rec. Vol. 2 at 60. Based on this document, plus the undisputed fact that the name "ROLEX" appears on the watches, the district court correctly concluded that "ROLEX" is the mark at issue. Rec. Vol. 6 at 377.[13]

Alternatively, Wal-Mart argues that Geneva is the "equitable or constructive owner" of the "ROLEX" trademark, because Bienne has authorized it to register this mark in combination with marks Geneva already owns. This contention does not comport with either Swiss or American trademark law. The record shows that "[t]he presumption under Swiss law is 'that the first depositor of a mark is also the real owner thereof.' " Record Vol. 3 tab 23 Gov't Exhibit 7, p. 22; Record Vol. 3 tab 23, Gov't Exhibit 9, Exhibit H (Switzerland Trademark Act, Art. 5). "Bienne is the owner of the earliest registration for the mark Rolex in Switzerland, Registration No. 34251 issued October 17, 1913, renewed August 22, 1974 under Renewal No. 273,292." Record Vol. 3 Tab 23 Gov't Exhibit 7, p. 22. Bienne's authorization

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[12] The Rolex Crown mark is engraved on the forfeited watches, however, the district court found that as long as the name, "ROLEX" is on the watch, regardless of its appearance in a combination mark, the importer must first obtain Rolex USA's permission or show that Bienne and Rolex USA are under "common ownership or control."

[13] The Amended Stipulation of Facts was filed September 11, 1990. The government clearly contended that "Rolex" was the mark at issue in a brief filed on November 7, 1990. The district court did not decide the case until March 19, 1992 giving Wal-Mart ample time to assert its position or declare prejudice.

of Geneva to use the mark does not alter this presumption. "Registration of the same mark by manufacturers or merchants 'who are closely connected with each other from the economic point of view' are permitted under Swiss law." Swiss Trademark Act, Art. 6 *bis*. Therefore, Wal-Mart's argument that Geneva constructively owns the mark has no merit.[14]

Moreover, the presence of Rolex Geneva's name on the watch does not indicate ownership of the Rolex mark. *See, Nabisco, Inc. v. George Weston Limited,* 179 U.S.P.Q. 503, 508 (Patent Office Trademark Trial and Appeal Board): stating that "the trade name of the seller or distributor of the goods appears in conjunction with the manufacturer's trademark does not serve to divest the manufacturer of its trademark rights in said designation since the inclusion of a dealer of distributor's name serves merely to indicate from whom the product is purchased by the consumer."

In sum, the district court correctly concluded that Rolex is the mark at issue; that Bienne "has always exclusively owned the 'Rolex' mark." Rec. Vol. 6 at 380. Consequently, Wal-Mart must show that the district court erred in holding that the regulatory exception does not apply to Bienne and Rolex USA.

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[14] Wal-Mart's assertion that under U.S. law Geneva is the constructive owner of the "Rolex" mark is equally meritless. Wal-Mart cites dictum from an 1891 Colorado decision stating that "a corporation which succeeded to all the rights, good-will and trade of the former owner" is "treated as the equitable owner" of the trademark. *Solis Cigar Co. v. Pozo,* 16 Colo. 388, 395, 26 Pac. 556, 558 (1891). However, we find no evidence to support the assertion that Geneva succeeded to all the rights, good will and trade of Bienne; indeed Bienne continues to operate as the manufacturer of the Rolex movements. Moreover, although Bienne has authorized Geneva to obtain various registrations for Rolex combination marks in Switzerland, Geneva does not have an unlimited authorization to use the Rolex mark itself. *See,* Callman, *Unfair Competition, Trademarks and Monopolies,* § 19.46 (stating that a license involves the transfer of something less than the entire interest, and does not affect the licensor's title).

2. Common Control Between Rolex USA and Bienne

Conceding that Bienne and Rolex USA are not subject to common ownership, Wal-Mart contends that Rolex USA and Bienne are subject to common control, which means "effective control in policy and operations," based on the history and operations of the "Rolex empire." Wal-Mart argues that all of the arms of this empire form a single organization. Wal-Mart tries to equate the Rolex corporate arrangement to the "amoeba-like" structure referred to in the *Parfums Stern* case.[15] Wal-Mart also asserts that Bienne and Geneva are subject to common control because Bienne manufactures the watch movements and Geneva places these movements into the watch casings it manufactures and distributes the finished product worldwide. Wal-Mart reasons that if there were no effective common control between the operations of these two entities, no watches manufactured in Bienne would ever be sold.

Wal-Mart's arguments are not persuasive. We simply do not find support in the legislative history or the case law for the proposition that a close and profitable business relationship amounts to "common control."

We agree that Bienne and Geneva perform essential functions in manufacturing and selling Rolex products, but this is not a basis for a finding of common control. One court has stated that the regulatory language contemplates the sort of control that a parent corporation would exercise over a subsidiary or that a common owner might exercise over both organizations. *United States v. Eighty-Nine (89) Bottles of Eau de Joy,* 797 F.2d 767 (9th Cir. 1986), citing *Coalition to Preserve the Integrity of American Trademarks v. United States,* 598 F. Supp. 844, 850 (D.C.D.C. 1984). Wal-Mart is essentially sug-

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[15] **Unfortunately, the basis for this description is not detailed in the *Parfums Stern* opinion because the facts are not detailed in the published opinion. The companies involved were simply described as "affiliated" and "strongly related." *Id.* at 420.**

gesting that the relationship between the American firm and the foreign firm trademark owner need not be clearly shown; it is enough to show that the American is part of a larger closely knit foreign structure. While this argument has some appeal to this court, the regulations promulgated under the statute and upheld by courts interpreting the statute focus on the ownership structure regardless of the practical realities of these business enterprises. We will not depart from such a framework without a word from Congress.

For example an argument similar to Wal-Mart's has been rejected in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*[16] There, the defendant argued that the affiliations between the plaintiff, the American trademark owner, and its parent company Osawa-Japan, who traded exclusively with the foreign trademark owner, Mamiya Co, formed part of "a unified international enterprise engaged in the production and world wide distribution of Mamiya camera equipment." *Id.* at 1066. Therefore, the defendant argued that the American trademark owner was not entitled to protection under § 526. The court rejected this argument, and after describing in detail the history of the statute and regulations concluded,

> [t]his regulatory exception has no application in this case. Mamiya Co., the owner of the trademarks in question, owns only 7% of plaintiffs stock and there is no evidence that it exerts any control over plaintiff's policies and operations.

The court found that the plaintiff was not a mere shell but a "legitimate and actual owner of the business of selling MAMIYA . . . products in this country." [17] In a

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[16] 548 F. Supp. 1063, 1065 (E.D.N.Y. 1982).

[17] The Second Circuit vacated the order and remanded to the district court because the district court had failed to make the requisite findings concerning: the likelihood of irreparable harm and either the likelihood of success on the merits or sufficiently

related case, *Osawa & Co. v. B & H Photo,* 589 F. Supp. 1163 (S.D.N.Y. 1984), Bell & Howell, renamed Osawa & Co., sued B & H Photo and Tri-State Inc., New York discount camera dealers, who were selling Mamiya equipment without authorization. The district court granted Osawa's preliminary injunction against the defendants under § 526. The defendant also argued that the common control exception should apply to exclude plaintiff from § 526 protection because Osawa-Japan, the exclusive worldwide distributor, not only controlled the plaintiff, but also controlled Mamiya Co., the foreign trademark owner, through its 30% ownership. The court held that the defendants had not shown common control between Mamiya Co. and Osawa & Co., and did not accept the defendants argument that the plaintiffs had an unjustifiable monopoly on the sale of Mamiya equipment.

Wal-Mart points to *Weil Ceramics & Glass, Inc. v. Dash,* 878 F.2d 659 (3d Cir.), *cert. denied,* 493 U.S. (1989) as a case suggesting common control exists if the American firm enjoys a close relationship with the forefgn firm, because this "presents the potential for undesired monopoly of the domestic market." The "close relationship" between Bienne and Geneva, according to Wal-Mart, creates the same monopoly potential. *Weil,* however, did not hold that a potential for monopoly alone satisfies the common control requirement. In *Weil,* the American owner of the LLADRO trademark was the wholly-owned subsidiary of the foreign manufacturer and foreign owner of the LLADRO trademark. There was common ownership in the strict sense of the term, i.e. common ownership of controlling shares of stock.

NEC Electronics v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir.), *cert. denied,* 484 U.S. 851 (1987), also cited

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serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief. *Bell & Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42, 44 (2d Cir. 1983).

by Wal-Mart is similarly inapplicable. There the domestic trademark holder (NEC-USA) was a wholly-owned subsidiary of the foreign manufacturer and trademark holder (NEC-Japan); NEC-Japan's directors constituted a majority of the NEC-USA's board of directors. *Id.* at 1507. This was a clear case of common ownership and control, and is unlike the case before us.

Moreover, in *Lever Bros. v. United States,* 877 F.2d 101 (D.C. Cir. 1989), Wal-Mart correctly points out that the court assumed common control although the American trademark holder was "affiliated . . . in some manner not precisely disclosed in the record" with the foreign trademark holder. *Id.* at 102 n. 2. However, the issue of common control was conceded, as the court specifically noted. *Id.* The court ultimately declined to rule on the § 526 issue and held that § 42 of the Lanham Act barred importation of foreign goods with identical trademarks if the goods were physically different without regard to the affiliation between the foreign and domestic firms or the genuineness of the trademark. *Id.* at 111. The *Lever Bros.* court found the affiliate exception of 19 C.F.R. § 133.21(c) to be inconsistent with § 42 with respect to physically different goods.

We simply find no support in the record before us that shows that Rolex USA and Bienne are subject to common control. Even though these two companies maintain a longstanding business relationship, effective control in policy and operations has not been shown. Bienne manufactures the movements of the Rolex watches which are then placed into casings manufactured and distributed worldwide by Geneva. Without more proof that Bienne and Rolex USA are subject to common control by some source other than the ties that bind two entities with a profitable business relationship, we cannot hold under the current state of the law that common control has been shown.

C. The Innocent Owner Defense

Wal-Mart argues that the district court erred by granting a summary judgment of forfeiture, without conducting a trial on its assertion of innocent ownership. Wal-Mart's assertion stems from dicta in *Calero-Toledo v. Pearson Yacht Leasing Co.*, 416 U.S. 663, 94 S. Ct. 2080, 40 L. Ed. 2d 452 (1974) where the Supreme Court held constitutional a Puerto Rican forfeiture statute providing forfeiture of a vessel without notice and hearing until after seizure. Police had found marijuana on the owner's yacht while in the possession of a lessee who chartered the boat. The statute did not require notice prior to seizure and did not exempt property of an owner who was neither involved in nor aware of the act of his lessee which resulted in the forfeiture. In dicta, the Court said,

> . . it would be difficult to reject the constitutional claim of an owner whose property subjected to forfeiture had been taken from him without his privity or consent. Similarly, the same might be said of an owner who proved not only that he was uninvolved in and unaware of the wrongful activity, but also that he had done all that reasonably could be expected to prevent the proscribed use of his property; for in such circumstance, it would be difficult to conclude that forfeiture served legitimate purposes and was not unduly oppressive.

Id. 416 U.S. at 689-90, 94 S. Ct. at 2094-95 (citations omitted). Wal-Mart also relies on a Second Circuit decision to support its assertion that there is a constitutional "innocent owner" defense to customs violations. *United States v. One Tintoretto Painting*, 691 F.2d 603, 607-08 (2d Cir. 1982) (owner of the painting attained ownership before the illegal importation into the U.S. and did all that reasonably could be expected to prevent the proscribed use of his property before letting another take it on commission to sell in the U.S.). However, as the

Sixth Circuit recognized, both the *Calero-Toledo* and *Tintoretto Painting* cases involved situations where the owner of the property subject to forfeiture attained ownership rights prior to the illegal use of the property. *United States v. One 1984 Mercedes Benz Model No. 380 SE,* 836 F.2d 268, 270 (6th Cir. 1988) (stating that in those cases where the innocent owner defense was successful, the owner's rights to the property did not flow from the illegal activity itself).

By contrast, Wal-Mart's ownership of the watches arises only after the unauthorized importation. Wal-Mart seems to suggest that we apply an "innocent purchaser for value" defense here. But, the Sixth Circuit has held, in an illegal importation case that *Calero-Toledo* does not create this defense. *See, One 1984 Mercedes Benz Model No. 380 SE,* 836 F.2d at 270 (no innocent purchaser defense for one who purchased vehicle from importer who falsely claimed that the vehicle was for personal use only and paid no duty because allowing defense would seriously undermine the enforcement of the customs laws). The Sixth Circuit decision was followed by the Eighth Circuit in *United States v. One Cessna Model 210L Aircraft,* 890 F.2d 77, 82 (8th Cir. 1989) (alternatively holding that appellant's ownership of plane flowed from another's illegal drug trafficking and ordering forfeiture). Since Wal-Mart purchased these watches after their unauthorized importation, we hold that no innocent purchaser or owner defense is available to Wal-Mart. It would seem to render useless the current system of public recordation if purchasers of imported items could ignore the listings and obtain good title by simply asking their sellers, as Wal-Mart did, whether the imports were authorized.

AFFIRMED.

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS

Civil Action H-89-1740

UNITED STATES OF AMERICA,
Plaintiff,

versus

EIGHTY-THREE ROLEX WATCHES,
Defendant.

OPINION ON SUMMARY JUDGMENT

[Filed March 19, 1992]

1. *Introduction*

The United States government seeks to forfeit 83 Rolex watches that were seized from Sam's Wholesale Club, a division of Wal-Mart. The government contends that the watches were imported for resale without permission of the holder of the American trademark, 19 U.S.C. § 1526. Wal-Mart claims that importing the watches falls under an exception to the statute because the American and foreign trademark owner are under common ownership or control. 19 C.F.R. § 133.21(c). Since no common ownership or control between the foreign trademark holder and the American trademark holder has been shown, the government may forfeit the watches.

2. *Background*

Sam's Wholesale Club was selling genuine Rolex watches. After investigating, the Customs Service seized 83 Rolex watches from Sam's, because the watches were

imported without the permission of Rolex Watch U.S.A., Inc. (Rolex USA). Rolex USA, a New York corporation, is the registered American holder of several trademarks used on Rolex watches, including the mark for the word "Rolex," which is the mark at issue. Rolex USA is owned entirely by Rolex Industries, Inc., another New York corporation. Rolex Industries is owned by Rolex Holdings Geneva, a Swiss corporation, which in turn is owned by the Wilsdorf Foundation, a Swiss foundation. The Wilsdorf Foundation also owns 86% of Montres Rolex, S.A., in Geneva (Geneva).

Geneva is the worldwide distributor of all Rolex watches including the Rolex crown, Tite-Fit and Oyster Perpetual. Geneva has assigned its rights in these marks in the United States to Rolex USA. Although Geneva does not own the mark "Rolex", Geneva has been allowed to register this mark in combination with the marks Geneva already owns.

Manufacture des Montres Rolex, S.A. (Bienne), the non-American owner of the "Rolex" trademark, is located in Bienne, Switzerland, and it is owned by various individuals and foundations. Bienne manufactures the movements of the Rolex watches and has always exclusively owned the "Rolex" mark. In September 1982, Bienne assigned its United States registration of the "Rolex" mark to Rolex USA, which Rolex USA recorded with Customs in 1983.

All Rolex entities except Bienne are either directly or indirectly linked to the Wilsdorf Foundation, but the only objective common tie between Bienne and another Rolex entity is that Harry Borer, a shareholder in Bienne, also owns 26 of 6,000 shares in Geneva. This amounts to .43% ownership, and upon his death, these shares revert to the Wilsdorf Foundation.

3. *Forfeiture and Burden of Proof*

Foreign goods bearing a genuine American trademark that are imported without the permission of the American trademark holder are subject to seizure and forfeiture. 19 U.S.C. § 1526. An exception to this rule exists if the American and foreign trademark owners are either the same entity or under common ownership or control. 19 C.F.R. § 133.21(d); *K-Mart Corp. v. Cartier, Inc.*, 485 U.S. 176 (1988).

The government brought this suit *in rem* to forfeit the 83 Rolex watches. In a civil action for forfeiture, the government has the burden to show probable cause for initiating a suit. After the government has shown probable cause, the burden of proof shifts to the claimant to prove a defense to the forfeiture. 19 USC § 1615; *One Lot of Emerald Cut Stones v. United States*, 409 U.S. 232, 234; *United States v. $400,000.00 in U.S. Currency*, 831 F.2d 84, 88 (5th Cir. 1987); *United States v. One Lot of Approximately Twenty Thousand Pairs of Counterfeit Blue Jeans Bearing the Jordache Trademark*, 601 F.Supp. 476, 479 (W.D.N.C. 1985). As evidence of probable cause, the stipulated facts are:

1) The watches are genuine Rolex watches;

2) All watches bear the "Rolex" mark;

3) Rolex USA is the exclusive holder of the "Rolex" mark in the United States;

4) The watches were imported without the permission of Rolex USA.

A showing of probable cause means less than prima facie proof, but more than mere suspicion. *United States v. One 1971 Chevrolet Corvette Automobile*, 496 F.2d 210, 212 (5th Cir. 1974); *Bush v. United States*, 389 F.2d 485, 489 (5th Cir. 1968). The stipulated facts provide probable cause.

The burden of proof is now on Wal-Mart to establish a defense to the forfeiture of the watches. 19 USC § 1615. Summary judgment may be had against Wal-Mart if it fails to sufficiently establish an essential element of its case. *Celotex Corp. v. Catrett,* 477 U.S. 321, 322 (1986). To meet this burden, Wal-Mart must demonstrate that Bienne, the foreign trademark holder, and Rolex USA, the American trademark holder, are under common ownership or control. This would place Wal-Mart within the exception which allows importing articles without the trademark holder's permission. 19 CFR 133.21(c).

4. *Common Ownership and Control*

Common ownership means individual or aggregate ownership of more than 50 percent of the business entity. 19 CFR § 133.2(d)(1). Common control means effective control in company policy or operations and is not necessarily synonymous with common ownership. 19 CFR § 133.2(d)(2). For this exception to apply, the common ownership or control must exist between the foreign and American trademark holders. Wal-Mart has attempted to show that such a relationship exists between Rolex USA and Geneva. While there is common ownership of Geneva and Rolex USA, this is not relevant because the trademark at issue is "Rolex", the foreign owner of which is Bienne. To fit within the exception, Wal-Mart must show that there is common ownership or control between Rolex USA and Bienne.

Wal-Mart also raises the defense that since Geneva has rights in several other marks on the Rolex watches and because Geneva is under common ownership with Rolex USA, the importation of these watches falls under the exception. This defense also fails. Regardless of how many marks are not eligible for import protection, as long as the "Rolex" mark is on the watch, the importer must first obtain Rolex USA's permission. This is because Bienne, not Geneva, is the foreign holder of the

"Rolex" mark. This situation is analogous to a record album that contains ten songs, only one of which is copyrighted. Although each of the unprotected songs may be copied individually, as long as the one protected song remains, the album as a whole may not be copied without permission of the copyright owner. The lone protected song precludes the entire album from being copied without permission. In this case, the sole mark of "Rolex" prevents the unauthorized importation of Rolex watches, despite the unprotectable marks.

As another defense, Wal-Mart raises the issue that Bienne and Geneva jointly own a company by the name of Rolex Le Locle (Locle). Locle is a real estate company jointly owned by Bienne and Geneva that owns buildings and receives rents. Wal-Mart asserts that this relationship between Bienne and Geneva is sufficient to place them under common ownership or control, and this in turn places Bienne and Rolex USA under common ownership or control. This defense fails because the common ownership exception requires either one company to own the second or the two companies to be owned by a parent company. 19 C.F.R. § 133.21(c). In this case, Bienne and Geneva jointly own Locle and are not under Locle's ownership or control. This relationship between Bienne and Geneva is insufficient to place them under common ownership or control. A subsidiary does not inject common ownership or control between the parents in any pursuit other than the subsidiary itself.

Since Wal-Mart failed to show that the watches are not subject to forfeiture, the government will have a judgment on the issue of forfeiture summarily.

5. *Civil Penalty*

Civil forfeiture is an *in rem* action brought against the property under the theory that the property itself is guilty of wrong doing. *United States v. 66 Pieces of Jade and Gold Jewelry,* 760 F.2d 970 (9th Cir. 1985); *United*

States v. Kingsley, 851 F.2d 16, 18 n.2 (1st Cir. 1988); *United States v. One 1976 Cadillac Seville*, 477 F.Supp. 879, 881 (E.D.Mich. 1979). In its motion for summary judgment, the government is also asking for a civil penalty equal to the value of the watches to be assessed against Wal-Mart. 19 U.S.C. 1595a(b). On this issue, the government's motion for summary judgment must fail. The government brought this suit *in rem* and sued only the watches. Wal-Mart has not been named as a defendant and the government did not plead for the civil penalty in either its original or amended complaint. The issue of a civil penalty appears to have been raised only as an afterthought. Wal-Mart has appeared only to defend its interest in the *res* and is not a defendant in this action. No penalty may be assessed because this action is *in rem* against the watches and not *in personam* with Wal-Mart as a defendant.

6. *Conclusion*

The 83 Rolex watches violated the ban on importing foreign made articles that possess a valid United States trademark. These watches are subject to forfeiture because there is no evidence of common ownership or control between the American and foreign trademark holders. A civil penalty may not be assessed against Wal-Mart since this is an *in rem* action and Wal-Mart is not a defendant.

The government's motion for summary judgment will be granted with respect to the forfeiture and denied with respect to the penalty. Wal-Marts' motion for summary judgment will be denied with respect to the forfeiture and granted with respect to the penalty.

Signed on March 17th, 1992, at Houston Texas.

/s/ Lynn N. Hughes
LYNN N. HUGHES
United States District Judge

APPENDIX C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS

Civil Action H-89-1740

UNITED STATES OF AMERICA,
Plaintiff,

versus

EIGHTY-THREE ROLEX WATCHES,
Defendant.

FINAL JUDGMENT

[Filed March 19, 1992]

1. The government may forfeit the 83 Rolex watches, but no civil penalty is assessed against Wal-Mart.

2. Wal-Mart takes nothing from the United States.

Signed on March 17th, 1992, at Houston, Texas.

/s/ Lynn N. Hughes
LYNN N. HUGHES
United States District Judge

APPENDIX D

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 92-2266

USA,
Plaintiff-Appellee,

versus

EIGHTY-THREE ROLEX WATCHES,
Defendant,

versus

SAM'S WHOLESALE CLUB and
WAL-MART STORES, INC.,
Claimants-Appellants.

Appeals from the United States District Court
for the Southern District of Texas

ON PETITION FOR REHEARING AND
SUGGESTION FOR REHEARING EN BANC

(July 22, 1993)

Before REYNALDO G. GARZA, HIGGINBOTHAM and DEMOSS, Circuit Judges.

PER CURIAM:

(✓) The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is DENIED.

ENTERED FOR THE COURT:

/s/ Harold R. DeMoss
United States Circuit Judge

APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Civil Action No.: H-89-1740

UNITED STATES OF AMERICA

versus

EIGHTY-THREE ROLEX WATCHES AND ACCESSORIES

AMENDED STIPULATION OF FACTS

[Filed September 11, 1990]

NOW INTO COURT, through undersigned counsel, come the United States of America and claimants, Wal-Mart Stores, Inc. and Sam's Wholesale Club, Inc. to stipulate the following in this matter:

1.

On March 15, 1983, the United States Customs Service accepted the recordation by Rolex Watch U.S.A., Inc., of its ownership of the American Rolex Crown Trademark pursuant to 19 U.S.C. § 1526 and 19 C.F.R. Part 133, referred to herein as "the recordation." This recordation has a duration of twelve (12) years.

2.

In November of 1987, United States Customs Service Special Agent Ronald Loftin, received information that claimants were selling genuine Rolex watches allegedly in violation of the recordation and other U.S. Customs laws and regulations.

3.

On November 4, 1987, Mr. Harry M. Sedan, Special Agent in Charge of the United States Customs Service in Houston, Texas, notified by letter Mr. Sam W. Walton, Chairman of the Board of Wal-Mart Stores, Inc., that claimant were requested to cooperate voluntarily with the Customs Service concerning the "criminal investigation involving the sale and distribution of illegally obtained Rolex brand watches."

4.

Mr. Sedan assured Mr. Walton that "neither Wal-Mart Stores, Sam's Wholesale Club, nor any of its officers or directors [were] targets of this investigation."

5.

Claimants voluntarily complied with the investigation.

6.

In his effort to determine from where claimants were obtaining Rolex watches, Mr. Loftin conducted an investigation, part of which consisted of a meeting by him with executives of Wal-Mart Stores, Inc. at claimants' corporate offices in Bentonville, Arkansas.

7.

Cooperating with the investigation, claimants on January 13, 1988, delivered one hundred and twelve (112) genuine, new and otherwise unused watches bearing the Rolex Crown Trademark to Mr. Loftin.

8.

On April 25, 1988, Ms. Rhonda J. Parish, Corporate Counsel for claimants, formally demanded from Mr. Loftin the return of twenty-nine (29) of these Rolex watches. These twenty-nine (29) watches were subsequently re-

leased because the Customs Service found that they had ben domestically purchased by claimants.

9.

By "domestically purchased," the Customs Service meant that the twenty-nine (29) watches were imported by or with the consent of Rolex Watch U.S.A., Inc., the purported "owner" of the U.S. trademark for Rolex watches.

10.

The remaining eighty-three (83) watches have not been returned and are still in the custody of the United States Government.

11.

On or about March 2, 1989, claimants orally terminated their consent for the continued possession of the remaining eighty-three (83) watches by the Customs Service.

12.

On May 17, 1989, the United States filed with this Court a Complaint for Forfeiture wherein the United States aserted that the eighty-three (83) watches were "imported into the United States without the consent of Rolex Watch U.S.A., Inc. in violation of 19 USC 1526 and 15 USC 1124, by reason of which the said watches are subject to forfeiture under 19 USC 1526 and 19 USC 1595a(c)."

13.

On October 23, 1989, the United States filed with this Court its Amended Complaint for Forfeiture wherein the United States asserted that "[each] of the watches was introduced into the United States contrary to law in violation of 19 USC 1526 and 18 USC 545. Specifically, the watches were imported or introduced without the consent of Rolex Watch U.S.A., Inc., the registered trademark holder."

14.

The United States of America herein stipulates that it has no claim for the forfeiture of the eighty-three (83) Rolex watches and accessories under Section 42 of the Lanham Act, 15 U.S.C.A. § 1124 (West 1982).

15.

The movements of the eighty-three (83) Rolex watches which are the subject of this dispute were manufactured by Manufacture Des Montres Rolex, S.A., Bienne, Switzerland.

16.

The said eighty-three (83) watches were sold by Montres Rolex, S.A., a/k/a Rolex Watch Company Limited, Geneva, Switzerland, the exclusive worldwide distributor for Rolex watches.

17.

Montres Rolex, S.A., Geneva, holds Swiss trademarks for Rolex watches.

18.

Montres Rolex, S.A., Geneva, is imprinted on the case of all Rolex watches.

19.

Rolex Watch U.S.A., Inc. is a New York corporation owned in its entirety by Rolex Industries, Inc., also a New York corporation.

20.

Rolex Industries, Inc. of New York is owned in its entirety by Rolex Holding, S.A., of Geneva, Switzerland.

21.

Rolex Holding, S.A., is owned in its entirety by the Wilsdorf Foundation, a foundation organized under the laws of Switzerland.

22.

The Wilsdorf Foundation owns eighty-six percent (86%) of the shares of stock of Montres Rolex, S.A., Geneva.

23.

Dr. Harry Borer (a director and officer of Manufacture Des Montres oRlex, S.A., Bienne; a director and officer in Vinetum, A.G.; and a director of Rolex Le Locle, S.A.) owns twenty-six shares of stock in Montres Rolex, S.A., Geneva.

24.

Montres Rolex, S.A., and Manufacture Des Montres Rolex, S.A., each own fifty percent (50%) of Rolex Le Locle, S.A., in Le Locle, Switzerland.

25.

The Board of Directors of Rolex Le Locle, S.A. is composed of two representatives from Montres Rolex, S.A., Geneva and two representatives from Manufacture Des Montres Rolex, S.A., Bienne, Switzerland.[1]

/s/ Dermot S. McGlinchey
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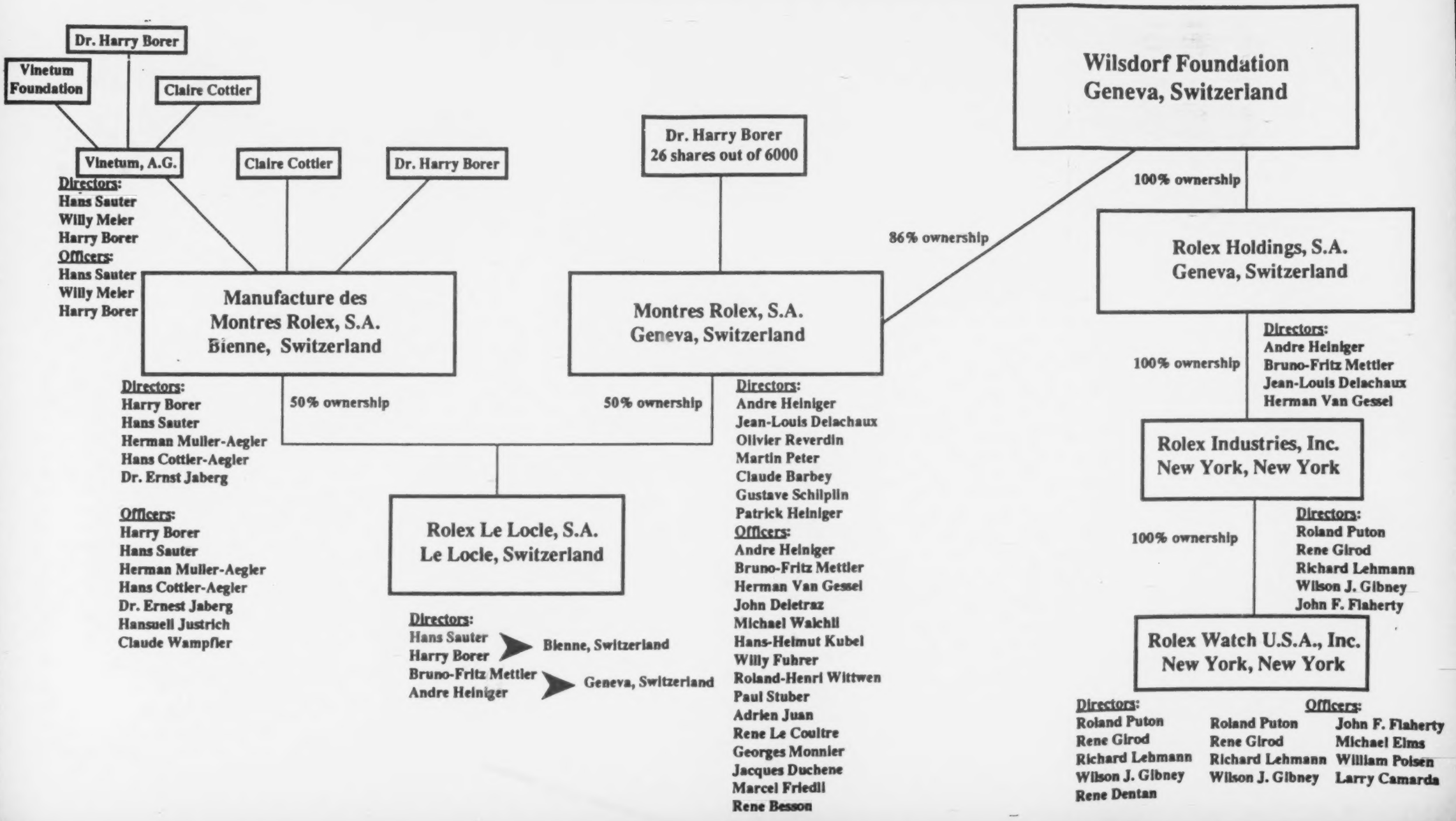
[1] A schematic of the ownership of Rolex is attached and incorporated herein as Exhibit A.

EXHIBIT A

ROLEX CORPORATE STRUCTURE



APPENDIX F

Supreme Court, U.S.
FILED
NOV 9 1993
OFFICE OF THE CLERK

No. 93-372

In the Supreme Court of the United States

OCTOBER TERM, 1993

SAM'S WHOLESALE CLUB, ET AL., PETITIONERS

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

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BEST AVAILABLE COPY

QUESTION PRESENTED

Whether the domestic and foreign owners of the trademark "ROLEX" are "subject to common ownership or control" within the meaning of applicable Customs Service regulations, so that the importation of watches bearing that trademark, without the permission of the domestic trademark owner, did not violate Section 526 of the Tariff Act of 1930.

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In the Supreme Court of the United States

OCTOBER TERM, 1993

No. 93-372

SAM'S WHOLESALE CLUB, ET AL., PETITIONERS

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-19a) is reported at 992 F.2d 508. The opinion of the district court (Pet. App. 20a-25a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on May 21, 1993. A petition for rehearing was denied on July 22, 1993. Pet. App. 27a-28a. The petition for a writ of certiorari was filed on September 3, 1993. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

Petitioners purchased 83 watches bearing the "ROLEX" trademark that were imported without the permission of the domestic corporation that has registered that trademark in the United States and recorded it with the United States Customs Service. The Customs Service seized the watches on the ground that they were imported in violation of Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526. The district court ordered forfeiture of the watches, and the court of appeals affirmed.

1. Section 526(a) of the Tariff Act prohibits the importation, without the written consent of the domestic trademark owner, of any merchandise bearing a trademark registered in the Patent and Trademark Office, recorded with the Customs Service, and owned "by a citizen of, or by a corporation or association created or organized within, the United States." 19 U.S.C. 1526(a). Under Customs Service regulations upheld by this Court in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988), the import prohibition does not apply if "[b]oth the foreign and the U.S. trademark * * * are owned by the same person or business entity," or if "[t]he foreign and domestic trademark * * * owners are parent and subsidiary companies or are otherwise subject to common ownership or control." 19 C.F.R. 133.21(c). The regulations define "common ownership" as ownership of more than 50% of each business entity, and "common control" as "effective control in policy and operations," which is "not necessarily synonymous with common ownership." 19 C.F.R. 133.2(d).

2. Rolex Watch U.S.A. Inc., a New York corporation (Rolex USA), recorded its U.S. ownership of the

"ROLEX" trademark with the Customs Service on March 15, 1983. See 13 C.F.R. 133.1-133.7. The standard form used for recording the mark stated that Rolex USA consented to limited imports for personal use and imports consigned to it or for its account, but did not consent to other imports. Pet. App. 2a.

On June 16, 1986, Customs privately advised attorneys for Rolex USA that it proposed to discontinue protection under Section 526 for watches bearing the "ROLEX" trademark, on the ground that Rolex USA was under common ownership or control with the owner of that trademark outside the United States. Pet. App. 2a-3a. Customs' letter to that effect was never published, however, and the decision that it reflected, which was to have gone into effect 30 days after the date of the letter, was never implemented. On August 15, 1986, Rolex USA submitted further information demonstrating, to Customs' satisfaction, that the foreign and domestic owners of the "ROLEX" trademark were in fact not under common ownership or control. *Id.* at 3a-4a. The public record of Rolex USA's objection to unauthorized imports of "ROLEX" watches remained unchanged during this period.

Rolex USA is indirectly wholly owned by a Swiss foundation that also owns 86% of Montres Rolex S.A., a Swiss corporation (Rolex Geneva). Pet. App. 3a. Rolex USA and Rolex Geneva are therefore under common ownership within the meaning of the Customs regulations. *Ibid.*; see 19 C.F.R. 133.2(d)(1). Rolex Geneva manufactures watch casings (which bear its company name on the inside), assembles them with watch movements, and distributes the finished product worldwide. Pet. App. 14a, 35a. The watch

movements are manufactured by a separate Swiss corporation, Manufacture des Montres Rolex S.A. Bienne (Bienne). *Id.* at 21a. Non-U.S. rights to the "ROLEX" trademark are owned not by Rolex Geneva but by Bienne, which is not under common ownership with Rolex Geneva or Rolex USA. *Id.* at 3a, 4a. Bienne has authorized Rolex Geneva to obtain Swiss registration of various marks that are used in combination with the "ROLEX" mark, including the stylized crown figure known as the "Rolex crown." *Id.* at 3a. The record does not contain a copy of the distribution agreement between Bienne and Rolex Geneva.

3. Petitioners acquired the watches at issue here after their importation into the United States. Pet. App. 19a. After an investigation, the Customs Service seized the watches and sought their forfeiture on the ground that they had been imported without the permission of Rolex USA, and therefore in violation of Section 526. See 19 U.S.C. 1526(b). The district court agreed and ordered forfeiture, holding that the trademark at issue was "ROLEX" (Pet. App. 23a), and that petitioners had failed to demonstrate common ownership or control of the domestic and foreign holders of that mark (Rolex USA and Bienne, respectively). *Id.* at 23a-24a.

The court of appeals affirmed. At the outset, the court rejected (Pet. App. 5a-11a) petitioners' argument that an American company under foreign ownership is not entitled to protection under Section 526. After reviewing at length the legislative history and judicial and administrative construction of Section 526, the court concluded that in the absence of common ownership or control within the meaning of

the regulations, foreign ownership alone does not bar application of the statute. Pet. App. 11a.

The court of appeals agreed with the district court that the trademark at issue was the "ROLEX" mark, owned in the United States by Rolex USA and abroad by Bienne. Pet. App. 11a-13a. The court rejected petitioners' arguments that the mark at issue was the pictorial Rolex "crown" mark, owned outside the United States by Rolex Geneva, noting both that "ROLEX" was the mark recorded with the Customs Service, and "the undisputed fact that the name 'ROLEX' appears on the watches." *Id.* at 12a; see also *id.* at 23a-24a (district court opinion). The court also rejected, as a matter of both Swiss and U.S. law, petitioners' alternative argument that Rolex Geneva had become the "equitable or constructive owner" of the "ROLEX" mark by virtue of the authorization it received from Bienne to record that mark along with or as part of other marks. *Id.* at 12a-13a & n.14.

After examining the facts of this case in light of the pertinent case law, Pet. App. 14a-17a, the court of appeals agreed with the district court that petitioners had not demonstrated that Rolex USA and Bienne were subject to "effective control in policy and operations" within the meaning of the Customs regulations. *Id.* at 17a; see 19 C.F.R. 133.2(d)(2). The court recognized that the two companies had a longstanding, close and profitable business relationship. Pet. App. 14a, 17a. "Without more proof that Bienne and Rolex USA [were] subject to common control by some source other than the ties that bind two entities with" such a relationship, however, the court concluded that petitioners had not borne their

burden of showing that Rolex USA fell within the regulatory exception to Section 526. Pet. App. 17a.

Finally, the court rejected petitioners' contention that the district court erred in failing to hold a hearing on their claim that they were entitled to an "innocent owner" defense to forfeiture. Pet. App. 18a-19a. The court noted that petitioners acquired the watches only after their illegal importation, and held that, in those circumstances, recognition of what it termed an "innocent purchaser for value" defense would "seriously undermine the enforcement of the customs laws." *Id.* at 19a (citing *United States* v. *One 1984 Mercedes Benz Model No. 380SE*, 836 F.2d 268, 270 (6th Cir. 1988)). Moreover, given the fact that Rolex USA's refusal to authorize imports of trademarked goods was a matter of public record, the court pointed out that it "would seem to render useless the current system of public recordation if purchasers of imported items could ignore the listings and obtain good title by simply asking their sellers, as [petitioners] did, whether the imports were authorized." Pet. App. 19a.

ARGUMENT

1. Petitioners contend (Pet. 21-26) that Section 526's protection against unauthorized imports should never extend to American enterprises owned by foreign interests. That contention is refuted by the statute itself, which protects marks owned by any "corporation or association created or organized within * * * the United States." 19 U.S.C. 1526(a). That language is not ambiguous. Congress is well aware of the difference between the place where a corporation is organized, and the identity or allegiance of its owners; when it wishes to impose

restrictions that depend on the latter, it does so explicitly, and with the care made necessary by the ease with which corporate formalities may be manipulated. See, *e.g.*, 46 U.S.C. App. 802 (domestic ownership requirements for U.S. vessels); 26 U.S.C. 897 (added by the Foreign Investment in Real Property Tax Act of 1980, Pub. L. No. 96-499, Tit. XI, Subtit. C, § 1122(a), 94 Stat. 2682). It did not do so in Section 526.[1]

To be sure, as members of this Court remarked in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281, 292 (opinion of Kennedy, J.), 298-299 (opinion of Brennan, J.), 318-319 (opinion of Scalia, J.) (1988), there is some ambiguity in the language of Section 526 on the issue of foreign ownership *of the trademark for which protection is sought*. In *K Mart*, the Court upheld Customs' regulatory interpretation that where the foreign owner of a trademark also owns or controls a U.S. corporation that seeks import protection for the same mark, that mark is not "owned by" the U.S. corporation for purposes of Section 526. That statutory ambiguity and its regulatory resolution have nothing to do, however, with the statute's threshold requirement that a corporation seeking import

[1] Contrary to petitioners' assertion, see Pet. 22, there is nothing inconsistent in extending to foreign-owned American corporations the benefits of "protectionist" legislation. See, *e.g.*, *International Raw Materials, Ltd.* v. *Stauffer Chemical Co.*, 978 F.2d 1318, 1322-1325 (3d Cir. 1992) (antitrust exemption for American exporters protects foreign-owned firms exporting from the United States), cert. denied, 113 S. Ct. 1588 (1993); *Brother Industries (USA), Inc.* v. *United States*, 801 F. Supp. 751 (Ct. Int'l Trade 1992) (foreign-owned corporation may be U.S. "manufacturer" for purposes of invoking antidumping provisions against competing imports).

protection be "created or organized" in the United States. As to that requirement, the court of appeals reviewed the relevant authorities (Pet. App. 6a-11a) and concluded that "[n]othing in the case law, legislative or regulatory history suggests that an American company under foreign ownership may not avail itself of § 526 protection."[2] *Id.* at 11a. That

---

[2] Petitioners' assertion (Pet. 24) that the result in this case "conflicts with previous Customs Service practice" is incorrect. Administrative practice under the statute and regulations looks only to whether the foreign and domestic trademarks are owned by the same entity or by entities under common ownership or control. 19 C.F.R. 133.21(c)(1)-(2). Petitioners quote (Pet. 25) a 1989 notice in the *Federal Register* that refers to Customs' longstanding position that protection under Section 526 should be "reserved to independent American firms"; they fail to point out, however, that the notice (which was issued in response to this Court's decision in *K Mart*) explained that the Court had upheld the same-owner and "common ownership [or] control" tests, and announced that Customs would "continue its administration of those [tests] as in the past." 54 Fed. Reg. 51,035 (1989). Customs has always applied the common ownership or control test to require only that the domestic trademark holder be "independent" of the foreign trademark holder —not independent of all foreign interests. Similarly, the description of Customs' position that petitioners quote (Pet. 24-25) from *Yamaha Corp. of America* v. *ABC Int'l Traders, Corp.*, 703 F. Supp. 1398, 1403 (C.D. Cal. 1988), aff'd in part, rev'd in part, 940 F.2d 1537 (9th Cir. 1991) (Table), cert. denied, 112 S. Ct. 1177 (1992), merely introduces a discussion of the common ownership or control test, again applied to a domestic subsidiary of the foreign trademark owner. Finally, petitioners quote (Pet. 25) the June, 1986, Customs Service letter to Rolex USA's counsel, proposing to deny Section 526 protection to the "ROLEX" trademark under the "common ownership or control" provision of the regulations. But the tentative decision reflected in that unpublished letter was never implemented, precisely because Rolex USA submitted

conclusion is correct, and warrants no further review.

2. Petitioners contend that the Customs Service and the courts below erred in focusing on the trademark "ROLEX" rather than the Rolex "crown" mark (see Pet. 17-18), and in determining that Rolex USA and Bienne (owner of the "ROLEX" mark outside the United States) are not under "common control" within the meaning of Customs' regulations (see Pet. 12-17). Neither claim merits review.

a. The district court rejected (Pet. App. 23a-24a) petitioners' attempt to focus on marks other than the "ROLEX" mark. Acknowledging that Rolex Geneva, which is under common ownership with Rolex USA, owns foreign rights to several other marks that appear on the seized watches, the court nonetheless explained that "[r]egardless of how many marks are not eligible for import protection, as long as the 'ROLEX' mark is on the watch, the importer must first obtain Rolex USA's permission * * * because Bienne, not [Rolex] Geneva, is the foreign holder of the 'ROLEX' mark." *Ibid.* The court compared the situation to a record album containing nine unprotected songs, and one subject to a valid copyright: "Although each of the unprotected songs may be copied individually, as long as the one protected song remains, the album as a whole may not be copied without permission of the copyright owner." *Id.* at 24a. The court of appeals upheld the district court's determination. *Id.* at 11a-13a.

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further information demonstrating, to Customs' satisfaction, that it was not under common ownership or control with the foreign holder of the "ROLEX" mark, and that the regulatory exception therefore did not apply.

Petitioners maintain that the watches at issue "were seized based on the 'Rolex Crown' trademark," and that the lower court's concentration on the "ROLEX" mark "ignores * * * the complaints filed against petitioners." Pet. 17, 18. As the court of appeals held, however, the district court properly based its decision on the public record of Rolex USA's objection to imports bearing the "ROLEX" mark, and reliance on that mark by the government and the courts involved no surprise or prejudice to petitioners. Pet. App. 11a-12a & n.13. Petitioners do not dispute that the "ROLEX" name appears on the watches (see *id.* at 12a), or the court of appeals' holding (*id.* at 12a-13a) that Bienne remains the owner of the "ROLEX" mark outside the United States. Although they stress (Pet. 18) the obviously close business relationship between Rolex USA, its parent Rolex Geneva, and Bienne, petitioners have offered nothing to refute the lower courts' conclusion that the "ROLEX" mark is legally separate from (and prior to) any of the combination marks owned jointly by Rolex Geneva and Rolex USA.[3] In the absence of

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[3] The separation of trademarks (and companies) is not illogical. A Rolex watch consists of two elements: a timepiece, encased in a piece of jewelry. Rolex Geneva designs and manufactures the cases, and assembles and distributes finished watches; it contracts with Bienne to manufacture the actual timepieces. See Pet. App. 14a. So far as appears from materials filed with the court of appeals by petitioners (although apparently not part of the record before the district court), Appellants' C.A. R.E. Tab 10, at 13-15, that arrangement between independent companies goes back to the origins of the company that became Rolex Geneva. While the record does not disclose an explanation for ownership of the "ROLEX" mark by Bienne (see generally *id.* at 15-20), it is not

any such showing, the courts below were correct in proceeding on the basis of the "ROLEX" mark alone.

b. Petitioners argue (see Pet. 14-15) that because the watches in question here were originally sold by Rolex Geneva, Section 526 ought not to afford protection against their importation to Rolex Geneva's subsidiary, Rolex USA. See *K Mart*, 486 U.S. at 301 (opinion of Brennan, J.). As a policy matter, that argument is not implausible. It has little to do, however, with the language of Section 526(a), which sweeps broadly to protect any trademark "owned by" a citizen or domestic corporation. 19 U.S.C. 1526(a). In view of the statute's focus on trademark ownership, the Customs Service's implementing regulations focus not on particular distribution arrangements that may be concluded by a foreign trademark

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particularly surprising (and petitioners do not dispute) that that mark was originally registered, and has always been exclusively owned, by Bienne, the manufacturer of the timepiece. See Pet. App. 21a. Moreover, over the course of a longstanding relationship, it would be logical for derivative marks relating primarily to particular styles of watch or casing (such as "Tite Fit" or "Oyster Perpetual") to be registered (under Bienne's authorization) by the entity primarily responsible for the design, manufacture and marketing of the watch casings. Similarly, petitioners' emphasis (see, *e.g.*, Pet. 18) on the presence of Rolex Geneva's imprint on each watch is difficult to understand. Such an imprint on that part of the joint product that is manufactured and distributed by Rolex Geneva is both unremarkable and logically irrelevant to any independent rights maintained by the manufacturer of the remainder of the product. Moreover, so far as appears (see Pet. App. 35a), Rolex Geneva's name is imprinted only on the interior of the watch casing, where it would be hidden from the view of any ordinary consumer by the watch movement manufactured—and bearing the trademark owned—by Bienne.

owner, but on common ownership or control between such an owner and the U.S. owner of the same trademark.[4] See *United States* v. *Eighty-Nine (89) Bottles of "Eau de Joy"*, 797 F.2d 767, 772 (9th Cir. 1986). This Court upheld those regulations in *K Mart*, against a challenge that they unduly limited the scope of statutory protection, precisely because of their permissible resolution of ambiguities in the meaning of trademark "ownership" under the statute. See 486 U.S. at 292 (opinion of Kennedy, J.). In seeking further limitation of the statute's scope, petitioners do not challenge the validity of the existing regulations. Nor do they claim that Bienne and Rolex USA are commonly owned. Thus, in order to establish a defense to forfeiture under Customs' valid regulations, petitioners were required to bear the burden of demonstrating that Bienne and Rolex USA are under "common control" within the regulatory definition. See Pet. App. 23a. Petitioners failed to bear that burden.

Although petitioners assert in this Court (Pet. 12) that successful international distribution of Rolex watches "could not exist" without the "effective con-

[4] If, for example, a foreign trademark owner contracted with a number of independent non-U.S. distributors, and sold its U.S. trademark rights to a U.S. subsidiary of one of those distributors, the U.S. trademark owner would be entitled to protection, under Section 526 and the current regulations, so long as it was not under common ownership or control with the foreign owner. That result would not depend on whether trademarked goods imported into the United States without the consent of the U.S. trademark owner were originally sold by that owner's parent corporation, or by another authorized non-U.S. distributor. Petitioners' argument here is essentially the policy argument for a contrary result.

trol in policy and operations" required by the regulatory definition of "common control" (see 19 C.F.R. 133.2(d)(2)), they adduce in support of that proposition little more than vague generalizations about de facto "beneficial" control. See Pet. 13. Rolex USA has refuted such generalizations, however, to the satisfaction of the Customs Service, which promulgated and bears primary responsibility for interpreting the "common control" regulation (see Pet. App. 3a-4a). Petitioners have not introduced into the record a copy or even a description of the distribution agreement between Bienne and Rolex Geneva, which (in the absence of any significant common ownership, see *id.* at 21a) presumably defines the legal relationship between the two. In the absence of evidence of duration, termination, stock voting, management or control provisions in that agreement (or elsewhere) that might show that Bienne and Rolex Geneva are not in fact independent and free to continue their relationship only so long as it remains mutually beneficial, Customs' interpretation of its own regulation as it applies to the particular facts of this case is not "plainly erroneous or inconsistent with the regulation," and is entitled to "controlling weight."[5]

[5] A variety of terms in the distribution agreement, or in separate agreements among the corporate entities involved or their shareholders, or possibly certain relationships among those entities' managers, directors or stockholders even in the absence of any formal agreement, might give rise to the sort of "effective [common] control in policy and operations" recognized by the regulations. Recognition of the force of such arrangements is, of course, the point of the regulations' reference to "common control" as distinct from "common ownership." But agreements or arrangements other than ownership must,

Stinson v. *United States*, 113 S. Ct. 1913, 1919 (1993), quoting *Bowles* v. *Seminole Rock & Sand Co.*, 325 U.S. 410, 414 (1945); *Udall* v. *Tallman*, 380 U.S. 1, 16-17 (1965). Both courts below upheld Customs' determination, and the issue does not require further review.[6]

3. a. Petitioners contend (Pet. 20-21) that forfeiture of the watches in question here violates the Excessive Fines Clause of the Eighth Amendment. That argument was not raised or passed upon below, and should not be considered for the first time in this Court. See, *e.g.*, *Yee* v. *City of Escondido*, 112 S. Ct. 1522, 1531 (1992); *Adickes* v. *S. H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970). In any event, however, this Court has previously made clear that forfeiture of unlawfully imported goods, which (as in this case) "is intended to aid in the enforcement of [customs] regulations" and "prevents forbidden merchandise

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like ownership itself, be proved, not merely suggested. Petitioners failed to bear their burden of proving to Customs or the courts below any relevant control relationship between Bienne and Rolex Geneva or Rolex USA.

[6] Contrary to petitioners' suggestion (see Pet. 12, 15), the decision below does not conflict with this Court's decision in *K Mart*, which focused on common ownership (or control) of the corporations that own the relevant trademark inside and outside the United States, see 486 U.S. at 292-293 (opinion of Kennedy, J.), 298-299 (opinion of Brennan, J.), or with the decision in *Weil Ceramics & Glass, Inc.* v. *Dash*, 878 F.2d 659, 662 n.2 (3d Cir.), cert. denied, 493 U.S. 853 (1989), which involved complete common ownership between the U.S. and foreign trademark owners. The only other relevant appellate decision of which we are aware held that a licensor-licensee relationship did not, without more, create "common control" within the meaning of the Customs regulations. *United States* v. *Eighty-Nine (89) Bottles of "Eau de Joy"*, 797 F.2d at 772.

from circulating in the United States," is a remedial rather than a punitive sanction. *One Lot Emerald Cut Stones & One Ring* v. *United States*, 409 U.S. 232, 237 (1972) (per curiam). Such remedial measures are not subject to the limitations imposed on punitive fines by the Eighth Amendment. *Austin* v. *United States*, 113 S. Ct. 2801, 2806 (1993).[7]

b. Petitioners argue (Pet. 18-19) that they are entitled to assert an "innocent owner" defense to forfeiture. As the court of appeals pointed out (Pet. App. 19a), petitioners purchased the watches at issue here after their unlawful importation, so that their claim might more accurately be stated as one by an "innocent purchaser for value." Such a defense might be available, in an appropriate case, to a completely innocent transferee under this Court's decision in *United States* v. *A Parcel of Land*, 113 S. Ct. 1126 (1993)—although that case, unlike this one, involved a defense provided by statute, and the Court has

[7] In *Austin*, the Court remarked that *One Lot Emerald Cut Stones* would not support forfeiture of real property and modes of conveyance on the theory that their value represented reasonable "liquidated damages" to "compensate the Government for the expense of law enforcement activity and for its expenditure on societal problems * * * resulting from the drug trade." 113 S. Ct. at 2811-2812. The government does not argue that forfeiture of the watches in this case is compensatory. The forfeiture of items imported in violation of customs regulations is instead forfeiture of "contraband itself," which the *Austin* court "recognized * * * may be characterized as remedial because it removes dangerous or illegal items from society." *Id.* at 2811. The argument (Pet. 20) that the validity of the forfeiture under these circumstances turns on the value of the merchandise imported is plainly untenable; any such rule would merely reward large transgressions as compared to smaller ones.

consistently reserved the question of whether any such defense is available in the absence of such a statutory provision.[8] *Austin* v. *United States*, 113 S. Ct. at 2809 & n.10. This case presents no such question, however, because petitioners cannot be characterized as "innocent" in the relevant sense.

Rolex USA's ownership of the "ROLEX" mark in the United States, and its objection to the unauthorized importation of goods bearing that mark, have been matters of public record since 1983. See Pet. App. 2a, 29a. The recorded notice to that effect was never withdrawn or suspended.[9] Public recording

[8] In our view the court of appeals was correct in concluding (Pet. App. 19a) that no "innocent owner" defense should be available to owners who purchased goods from those responsible for their unlawful importation of goods into the United States. Such a defense would, as the court observed, "seriously undermine the enforcement of the customs laws" (*ibid.*, citing *United States* v. *One 1984 Mercedes Benz Model No. 380SE*, 836 F.2d 268, 270 (6th Cir. 1988)), and has little to do with the hypothetical situation posited by this Court in *Calero-Toledo* v. *Pearson Yacht Leasing Co.*, 416 U.S. 663, 689-690 (1974), on which petitioners rely (Pet. 19), of "an owner who proved not only that he was uninvolved in and unaware of the wrongful activity, but also that he had done all that reasonably could be expected to prevent the proscribed use of his property." As discussed in the text, however, because petitioners were not legally "innocent," this case would not be an appropriate vehicle for the Court to address that question.

[9] Petitioners attempt to rely (Pet. 19) on Customs' 1986 letter advising counsel for Rolex USA that it had decided to cease providing protection against importation of watches bearing the "ROLEX" mark, because it appeared that Rolex USA was under common control with the foreign owner of that mark. See Pet. App. 2a-3a. That unpublished letter did not, however, cause actual suspension of enforcement against unauthorized "ROLEX" imports, and the tentative decision to

systems like the one at issue here (see 19 C.F.R. 133.1-133.7) serve in significant part to provide constructive notice to potential importers, and subsequent purchasers, of the rights claimed by the recording parties. As the court of appeals remarked (Pet. App. 19a), that function of recording trademarks for purposes of Section 526 would be vitiated by a rule that allowed purchasers to "ignore the listings and obtain good title by simply asking their sellers * * * whether the imports were authorized."[10] It is hardly unfair to hold sophisticated wholesale purchasers of trademarked imports to awareness of recorded trademark claims.

c. The same argument is a sufficient answer to petitioners' assertion (Pet. 21) of a conflict among the

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suspend enforcement was subsequently reversed, after Rolex USA clarified the ownership and control situation to Customs' satisfaction. See *id.* at 3a-4a. The forfeiture in this case was therefore caused not by any "change in the Customs Service's position" (Pet. 19), but rather by Customs' ultimate decision *not* to alter its enforcement practice in the manner anticipated by petitioners.

[10] Indeed, given petitioners' description of the facts (Pet. 6 & n.3), the inquiry they made of their sellers as to authorization of the imports in question (see Pet. App. 19a), and their heavy reliance (see Pet. 13, 19, 25) on Customs' unpublished letter proposing to cease enforcing the rights claimed by Rolex USA under Section 526, it appears that petitioners were well aware of the prima facie existence of those rights. Parties are, of course, free to accept a seller's representations of facts contrary to the documentary evidence, to seek indemnification from the seller if the matter seems doubtful, or simply to gamble commercially on the outcome of factual inquiries, legal challenges, or anticipated changes in administrative positions. They are not free to claim surprise or "innocence" when the representations prove false or the gambles fail.

circuits on the availability of the innocent owner defense: because the owners here had adequate notice of Rolex U.S.A.'s claims, they cannot be classified as "innocent," and that defense would not be available to them under any theory. In any event, the cases petitioners cite demonstrate no conflict. *United States* v. *One Tintoretto Painting*, 691 F.2d 603 (2d Cir. 1982), held only that a claimant had raised a triable issue of fact as to his innocence, including his reasonable efforts to prevent illegal use of his property, where he alleged that he had contracted with an acquaintance to sell a painting, including payment of any applicable duties, and the acquaintance had subsequently independently attempted to avoid any such duties in violation of U.S. law. *Id.* at 607-608. That case is easily distinguished from this case and the others cited by petitioner.

This case involves the purchase, by an allegedly innocent party, of goods imported illegally into the United States. *One 1984 Mercedes Benz*, which also upheld a forfeiture, likewise involved a claim by an allegedly innocent purchaser, where the sale itself violated the terms under which the seller was permitted to import the forfeited vehicle. 836 F.2d at 270. Finally, *United States* v. *One (1) 1976 Cessna Model 210L Aircraft*, 890 F.2d 77, 81-82 (8th Cir. 1989), primarily held that the claimants in that case had not made reasonable efforts to prevent illegal use of their property, and further remarked that the claimants "would not have had the opportunity to purchase [the seized] aircraft had it not been for" illegal activity of another owner prior to that on which forfeiture was based. None of these cases

conflicts in holding or reasoning with the decision in *One Tintoretto Painting*.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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